



DEPARTMENT OF STATE

Washington, D.C. 20520

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~~CONFIDENTIAL~~By us, NARA Date 11-10-99

TO: The Secretary

THROUGH: S/S *YPS*

MAY 25 1968

FROM: EUR - John M. Laddy *JML*SUBJECT: US Proposal for Settlement of Outstanding
US-Czech Economic Questions -- ACTION MEMORANDUMDISCUSSION:

On November 8, 1967 we made a comprehensive proposal to Czechoslovakia for the settlement of outstanding financial questions, including return of the monetary gold and payment of US claims (Tab A). A discussion of these issues appears at Tab B.

On May 2, 1968 following an intensive press and propaganda campaign, the Czechs delivered to our Embassy at Prague a note rejecting our proposal of November 1967 as "unfair and unacceptable" (Tab C). They demanded the immediate return of the gold and reiterated their offer to pay an additional \$2 million in settlement of our claims.

Since our proposal of November, two developments make some immediate forward movement toward a solution desirable:

(a) There has been a change of government in Czechoslovakia which gives promise of greater independence of policy and more respect for the individual which we wish to encourage.

(b) The Social Security Act of 1967 will cause the accrued benefits to non-citizen annuitants within Czechoslovakia to lapse unless Czechoslovakia is taken out of the prohibition of Treasury Circular 655* before

* Circular 655 provides that in general no checks drawn on US Government funds (Social Security, Railroad Retirement, Civil Service Retirement and Veterans' Administration) are to be sent to countries where there is reasonable doubt that the payee will receive the check or be able to negotiate it for full value.

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July 1, 1968. This would be unjust to the annuitants who would lose the accrued benefits through no fault of their own. For some time it has been clear that Czechoslovakia meets the standard of paying full value to the annuitants which Treasury Circular 655 was designed to achieve. The nature of the new Czechoslovak government gives some assurance that this situation will continue.

A new proposal on gold and claims is now in course of preparation. This, however, will require clearance with the claimants and interested members of Congress and, moreover, will at best take some time to negotiate. We could not hope to reach agreement on this before the July 1, 1968 deadline for removing Czechoslovakia from the prohibition of Treasury Circular 655. We propose, therefore, to proceed in two successive steps.

In step one, we would, subject to your approval, tell the Czechs as soon as possible that in view of their unwillingness shown by their May 2, 1968 note to accept our over-all proposals for a package settlement, we are working on a new and separate proposal on gold and claims which we hope will provide a mutually acceptable basis for solution. So far as the other elements of the original package are concerned, we would tell them that we now are taking steps to remove Czechoslovakia from the Treasury Circular 655 list before July 1, 1968. We would express the hope that with this issue removed the Czechs will be willing to agree on the remaining elements of the package, other than gold and claims, as soon as possible. We are prepared, without prejudice to our respective positions on gold and claims, to enter into an agreement (Tab D) settling all the other issues as follows: The Czechs would resume regular payments of principal and interest on the Surplus Property Agreement (about \$310,000 a year) and fund payments in default since 1952 (\$3.1 million principal and \$1.9 interest) by paying \$1 million now and \$1 million each year thereafter for four years. In addition, the Czechs would resume debt service on dollar bonds in default within 12 months and undertake negotiations to this end with the bondholders within three months. (The total original value of the bonds was about \$2.7 million but it is believed that a substantial number of these bonds have already been bought back by the Czechs.) Finally, the Czechs would

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release crown accounts owned by the US valued at about \$1.068 million and the US would for its part release blocking controls on Czech property worth about \$1.7 million. We would point out that by removing Czechoslovakia from Circular No. 655, Czech annuitants, after verification and validation of their individual claims, would receive accrued back payments of about \$5 million and about \$500,000 a year thereafter.

I should emphasize that in the interest of justice to the annuitants and of contributing positively to the atmosphere of Czech-US relations, our lifting of Treasury Circular 655 would be unconditional and would not be affected by any unwillingness of the Czechs to enter into arrangements giving us compensation for the benefits they would thus gain. We would attempt, however, by our action to create a moral obligation for the Czechs to be forthcoming on the other items set forth in the preceding paragraph. Actual payments to annuitants could be made only after verification and validation of their individual claims had been completed.

Albania, the Soviet Union and Hungary are other East European countries subject to the prohibitions of Treasury Circular 655. We have no diplomatic relations with Albania and have no way of certifying that annuitants in Albania will receive their checks and be able to negotiate them for full value. With respect to the Soviet Union, the matter is under study. We shall be making a separate proposal to you on Hungary where accruals under Circular 655 subject to lapsing on July 1, 1968 amount to about \$1.3 million. Hungary probably does give fair value to the recipients of annuity checks.

* H concurs reluctantly in this tactic and would have preferred that before we give an absolute undertaking to remove Czechoslovakia from Treasury Circular 655 we bargain with the Czechs to obtain some direct quid pro quo. H believes we should have the strongest possible justification to meet possible accusations by some members that we are evading the intent of Congress in making back payments at the last moment. H believes we should re-examine the situation before actually making payments to the annuitants. If by that time the Czechs have not given evidence of negotiating in good faith H believes we should then take advantage of any excuses to delay actual payments until they do so.

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In preparation for step two, we will proceed as soon as possible to consult with the claimants and interested members of the Congress on a new gold/claims proposal. In our aide-memoire of November 1967 we offered to accept in total settlement of our claims the sum of \$44 million toward which we would credit the full \$17 million paid by the Czechs for the steel mill never delivered. (The steel mill was ultimately sold by us for \$9 million which was distributed to the claimants.) We were willing to accept \$2 million on the return of the gold and the remainder of \$25 million in seven annual installments. The Czechs responded in their note of May 2, 1968 by demanding the return of the gold and offering to pay only \$2 million (added to the \$9 million received for the steel mill, this would give the claimants a total of \$11 million). In our new proposal we would reassert our claim for \$44 million, with the same credit of \$17 million, but offer to return the gold on the payment of \$2 million with the remainder in seven annual installments (the number of installments would be negotiable to some degree) to begin one year after the entry into force of a mutually satisfactory and reciprocal commercial agreement, providing on our side for the extension of MFN treatment to Czechoslovakia (Tab E).

This would enable us to reach present agreement for the return of the gold and thus remove this highly sensitive political issue in our relations with Czechoslovakia; show good will for the new regime; win for the claimants acceptance by the Czechs of a reasonable total ultimately to be paid to them; make use immediately of the leverage which will ultimately be given us by the return at some uncertain future date of MFN; and avoid compromising the interests of the claimants. While the total amount of \$27 million still to be paid (\$44 million minus the \$17 million attributed to the steel mill) would be negotiable within certain limits, we would in no case go below the 40 percent return to claimants, the minimum as yet received in any claims settlement with an East European communist country. A 40 percent (40 percent of \$72 million) return to the claimants would be a total of \$28.8 million of which \$9 million, the amount for which we sold the steel mill, has already been distributed to the claimants. This would require the Czechs to pay an additional \$19.8 million. This amount, plus the \$17 million for the steel mill, would give a total of \$36.8 million, which would be our lowest negotiating limit for a settlement.

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Even our lowest negotiating limit is likely to pose a major negotiating problem, however. This 40 percent settlement for US claimants represents a 51 percent settlement from the Czech point of view since they are credited with the full \$17 million which they paid for the steel mill while our claimants receive only the \$9 million sales proceeds. It will be very difficult to budge the Czechs above the \$28.8 million level which to them represents 40 percent--the level at which we settled with Poland and Romania.

If substantial difficulty should arise in our discussions with the claimants and interested members of the Congress, we would again consult you.

The general subject of what we can do to take advantage of the present situation to press forward with obtaining legislative authority for granting MFN is discussed in a separate memorandum (above).

RECOMMENDATIONS:

That you approve a proposal to the Czechs that we separate the gold/claims issue from the package proposed in our aide-memoire of November 8, 1967 and reach agreement on the remaining issues as set forth in the memorandum at Tab D (and on page 2 above).

Approve _____

Disapprove _____

That you approve a further proposal to the Czechs to be made after previous consultation with the claimants and interested members of Congress for the return of the gold on the conditions set forth in the memorandum at Tab E (and on page 4 above).

Approve _____

Disapprove _____

Clearances:

G - Mr. Bohlen - *substance*

L - Mr. Meeker

E - Mr. Solomon *RS*

H - Mr. Macomber
(see footnote page 3) *WM*

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