

DECLASSIFIED

Authority NND 979002By JW NARA Date 6-9-99PG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

INCOMING TELEGRAM

Department of State

33-S

CONFIDENTIAL

Action

Control: 5859

Rec'd: AUGUST 10, 1959

1:14 P.M.

EUR
Info

FROM: PRAGUE

TO: Secretary of State

SS
SP
C

NO: 72, AUGUST 10, NOON (SECTION 2 OF 2)

L
INR
H
E
DCL

"... TO BE PAID ON THE RELEASE OF ALL CZECHO ASSETS ON THE ACCOUNT OF ZIVNOSTENSKA BANKA, NATIONAL ENTERPRISE AND THE STATNI BANKA CESKOSLOVENSKA WITH VARIOUS NEW YORK BANKS AND ATTACHED IN THE JUDICIAL PROCEEDINGS REGARDING THE CASES OF STEPHEN V. ZIVNOSTENSKA BANKA AND WOLCHOK V. STATNI BANKA CESKOSLOVENSKA; SHOULD THE CZECHO ASSETS BE RELEASED IN PART ONLY, THE AMOUNT, WHICH MAY BE FOUND DUE, SHALL BE REDUCED IN PROPORTION TO THE CZECHO ASSETS NOT RELEASED AND SHOULD NO CZECHO ASSETS BE RELEASED, CZECHO SHALL BE FREE OF ANY LIABILITY TO PAY ANY AMOUNT MENTIONED IN THIS PARAGRAPH.

RMR

? "THE GOVERNMENT OF THE UNITED STATES SHALL CONCURRENTLY ENSURE THE SECURITY AND INVIOABILITY OF ALL PROPERTY VALUES ON THE ACCOUNTS OF THE STATNI BANKA CESKOSLOVENSKA WITH AMERICAN BANKS AS WELL AS REMITTANCES TO BE TRANSFERRED TO CZECHO THROUGH THE STATNI BANKA CESKOSLOVENSKA WITH THE EXCEPTION OF CASES INVOLVING OBLIGATIONS ASSUMED BY THE STATNI BANKA CESKOSLOVENSKA IN ITS OWN NAME".

REVISED PARAGRAPH 5 GIVEN BELOW. I TOLD HAJEK I SERIOUSLY QUESTIONED ITS ACCEPTABILITY EXCEPT PERHAPS AS SUBSTITUTE FOR PARAGRAPH 5(A) AND EVEN THIS DOUBTFUL. CZECHS SHOW NO SIGN OF GIVING ON THIS POINT. REVISION FOLLOWS:

? "THE GOVERNMENT OF THE UNITED STATES AGREES TO AMEND CIRCULAR NUMBER 655, ISSUED BY THE SECRETARY OF THE TREASURY ON FEBRUARY 19, 1951, SO AS NO LONGER TO PROHIBIT THE TRANSFER OF MONIES FROM UNISTATES PUBLIC FUNDS TO PAYEES IN CZECHO.

? "THE CZECHO SIDE DECLARES THAT CZECH FOREIGN EXCHANGE REGULATIONS DO NOT CONTAIN ANY OBSTACLES OR LIMITATIONS PREVENTING RECIPIENTS OF ALLOWANCES, SOCIAL SECURITY PAYMENTS, MILITARY PENSIONS AND

CONFIDENTIALUNLESS "UNCLASSIFIED"
REPRODUCTION FROM THIS
COPY IS PROHIBITED.

208954

DECLASSIFIED

Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

CONFIDENTIAL

-2- 72, AUGUST 10, NOON (SECTION 2 OF 2) FROM PRAGUE

OTHER PAYMENTS BY THE UNISTATES AUTHORITIES TO DISPOSE FREELY OF THE COUNTER VALUE IN CZECHO CROWNS OF SUCH PAYMENTS. ON THE CONTRARY, THE CZECH FOREIGN EXCHANGE AUTHORITIES ARE GRANTING TO THE RECIPIENTS CONSIDERABLE ADVANTAGES IN EXCHANGE IN INCOME PAYMENTS OF THIS KIND".

REVISED PARAGRAPH 8 CREATES LEGAL PROBLEMS I AM INCOMPETENT TO PASS ON BUT I GAVE HAJEK MY PERSONAL OPINION AMERICAN EXECUTIVE AGENCIES AND COURTS COULD ONLY APPLY AMERICAN LAW AND REGULATIONS TO QUESTIONS AFFECTING PROPERTY PHYSICALLY LOCATED IN UNISTATES. REVISION FOLLOWS:

"THE UNISTATES GOVERNMENT SHALL RELEASE ALL CZECH ASSETS BLOCKED IN THE UNITED STATES DURING WORLD WAR I AND II ACCORDING TO THE TRADING WITH THE ENEMY ACT AND ACCORDING TO ORDINANCES PROMULGATED IN PURSUANCE OF THIS ACT AND SHALL FACILITATE THEIR TRANSFER TO CZECH.

"WITH REGARD TO CZECH ASSETS VESTED IN THE UNITED STATES ACCORDING TO THE SAME LEGISLATION THE COMPETENT UNITED STATES AUTHORITIES SHALL, WHEN CONSIDERING THE APPLICATION OF CZECH SUBJECTS FOR RELEASE OF SUCH VESTED PROPERTY, RESPECT CZECH REGULATIONS ON LEGAL SUCCESSION".

HAJEK ALSO PRESENTED FIVE DRAFTING CHANGES IN TEXT OF STATEMENT ON FURTHERANCE CZECH-AMERICAN TRADE. EFFECT OF MOST CHANGES IS TO MAKE STATEMENT MORE POSITIVE AND TO ELIMINATE UNCERTAINTY. FOR EXAMPLE, LAST SENTENCE FIRST PARAGRAPH CHANGED TO READ "GRADUALLY, BOTH GOVERNMENTS WILL TAKE FURTHER MEASURES WHICH WILL CONTRIBUTE TO THE CREATION OF MORE FAVORABLE CONDITIONS FOR A BROADER EXPANSION OF TRADE." CZECH TEXT ALSO ELIMINATES WORD "PEACEFUL" IN REFERRING TO TRADE. HAJEK CLAIMED THIS CAUSED BY DIFFICULTY PUTTING INTO CZECH TRUE MEANING OUR TERM. HE SAID NO DESIRE TO DEVELOP TRADE IN WEAPONS OF WAR BUT IN CZECH OPPOSITE OF "PEACEFUL TRADE" WOULD BE "WARLIKE TRADE" AND HE THOUGHT IT OBVIOUS NO SUCH TRADE CONTEMPLATED. BECAUSE OF LENGTH FULL TEXT THESE CHANGES AS WELL AS FULL TEXTS ALL OTHERS BEING FORWARDED IN UNCLASSIFIED POUCH AUGUST 11.

JR

CONFIDENTIAL

ALLISON

208955

DECLASSIFIED
Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

CONFIDENTIAL

FN - Mr. Carve

L/E - Mr. Metzger

July 31, 1959

L/TE - Ely Maurer

in the typical form of such letters, and containing a copy of the signed Czechoslovakian

Simultaneous Delivery in Czechoslovak Settlement.

B. The signed delivery orders, in the typical form of such orders, made in favor of the

I. In the proposed Czechoslovakian settlement provision is made for simultaneous delivery, as may be mutually arranged. As a second alternative, we are willing to propose that simultaneous delivery should be made as is agreed upon in the attached Annex. It appears that the Czechoslovakians will probably insist on setting forth the simultaneous arrangements in the Annex of the agreement. I have been waiting for certain documents from the Secretary General before framing such an Annex. These documents have not, as yet, arrived, but in view of my going on vacation I thought I might give you my ideas of what such an Annex should contain. It would be along the following lines:

be made out in favor of the Czechoslovakian Central Bank and will be given to the Czechoslovakian Government to the Czechoslovakian Ambassador.

for the Restitution of Monetary Gold

Simultaneous delivery of the 18,400 kilograms and of the two million dollars will take place in the offices of the Secretary General of the Tripartite Gold Commission at Brussels at ten o'clock on _____ day. There will be present the Secretary General of the Tripartite Gold Commission, the United States Tripartite Gold Commissioner, and the Czechoslovakian Ambassador to Belgium.

When the United States Commissioner signs the Czechoslovakian award and the delivery orders on the Federal Reserve Bank, New York, and the Bank of England, London, (together totaling 18,400 kilograms), orders which will have theretofore been signed by the French and United Kingdom Commissioners, the Secretary General will deliver the documents listed in I below to the Czechoslovakian Ambassador against the delivery of the documents listed in II below by the Czechoslovakian Ambassador. (In the alternative, the bank involved may be a reputable Swiss bank.)

2. The Czechoslovakians may not like a procedure whereby they get a covering letter from the Tripartite Gold Commission announcing further distribution,

in the

chart
I have sent them the documents, which came in after the day

CONFIDENTIAL

208956

CONFIDENTIAL
CONFIDENTIAL
- 2 -

in the typical form of such letters, and containing a copy of the signed Czechoslovakian delivery order is irrevocable. If they should, as a result, be unable to have the entire gold delivery come from the Bank of England since the signed delivery orders, in the typical form of such orders, made in favor of the Czechoslovakian Central Bank and addressed in the amount of _____ kilograms to the Federal Reserve Bank New York, and _____ kilograms to the Bank of England, London.

*Statni Banka
Ceskoslovenska*
in the amount of
*Statni Banka
Ceskoslovenska*

- A. A letter in reply to the letter of the Tripartite [Gold] Commission, which letter of reply will designate that the delivery orders are to be made out in favor of the Czechoslovakian Central Bank and will enclose full powers from the Czechoslovakian Government to the Czechoslovakian Ambassador authorizing him to accept and receipt for the gold. This letter of reply and enclosure will be delivered to the Secretary General.
- B. A receipt for the delivery of the gold, in the typical form of such receipts, signed by the Czechoslovakian Ambassador. This receipt will be delivered to the Secretary General.
- C. A cashier's check for two million dollars made out in favor of the United States [Government] by the _____ Bank, New York City, or in the alternative, a certified check made out in favor of the United States Government and certified by the _____ Bank, New York City. This check will be delivered to the United States Commissioner. (In the alternative the bank involved may be a reputable Swiss bank.)

2. The Czechoslovakians may not like a procedure whereby they get a delivery order on a US bank, as is at present envisaged, since they

Chat,
I have sent them the documents, which came on after this 5/11

CONFIDENTIAL

DECLASSIFIED
Authority NND 979002
By JW NARA Date 6-9-99

PG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

CONFIDENTIAL

FN - Mr. Carve

CONFIDENTIAL

L/M - Mr. Metzger - 3 -

July 31, 1959

L/FE - Ely Mauer

may feel that it puts them at the mercy of the US Government even though the delivery order is irrevocable. If they complain, an alternative is to have the entire gold delivery come from the Bank of England, but since the gold there is not enough, there would have to be a preliminary transfer from New York to London to make up the deficit. The Czechoslovakians may even object to this procedure, or the TGC may not wish to transship the gold, in which case it may be necessary to enter into some kind of swap arrangement with a US, or maybe a Swiss bank, under which the US or Swiss bank would be authorized to receive the gold and only turn the certified check over to us at the time that the gold is outside the US or United Kingdom. I have been waiting for certain documents from the Secretary General before finalizing such an Annex. These documents have not, as yet, arrived, but in view of my going on vacation I thought I might give you an idea of what such an Annex should contain. It would be along the following lines:

Suggested revisions were conveyed to L/SPP - Mr. Griffin by telephone - 8/7/59.

The million dollars will be placed in the offices of the Secretary General of the Tripartite Gold Commission at Brussels at ten o'clock on _____ day. There will be present the Secretary General of the Tripartite Gold Commission, the United States Tripartite Gold Commissioner, and the Czechoslovakian Ambassador to Belgium.

When the United States Commissioner signs the Czechoslovakian award and the delivery orders on the Federal Reserve Bank, New York, and the Bank of England, London, (together totaling 12,400 kilograms), orders which will have theretofore been signed by the French and United Kingdom Commissioners, the Secretary General will deliver the documents listed in I below to the Czechoslovakian Ambassador against the delivery of the documents listed in II below by the Czechoslovakian Ambassador.

I

- A. A covering letter from the Tripartite Gold Commission announcing further distribution,

in the

CONFIDENTIAL

208958

DECLASSIFIED
Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

~~spg~~
WF

Recommendation approved by Treasury
Under Secretary, July 29, 1959

"In view of the foregoing, we assume that you would not object, if it became necessary in order to achieve agreement with Czechoslovakia, to our being willing to take payment of \$2 million from Czechoslovakia in the form of gold which the Czechs received from the gold pool. We would, of course, continue to press for payment in dollars as our first choice and would only revert to the gold payment scheme if the Czechs insisted that dollar payment was not feasible."

*Copies sent 7/29/59 to: EE - Mr. Sommerlatte
L/FE - Mr. Maurer*

Dictated by F. B. Smith:Treasury to OFD:FN:CMCarre:sek
7/29/59

208959



DEPARTMENT OF STATE INSTRUCTION

eld 2201

CONFIDENTIAL

A-9, July 26, 1959,

JPL
MBC
JCL
WF
CAC
H

81 eld NO.

- ORIGIN: SUBJECT
- EUR
- INFO
- DCL
- IRC
- E
- C
- ICA
- IES
- L
- SS
- SP
- U/MSC
- ARMY
- CIA
- OSD
- TR
- VA
- SEC

Economic Negotiations with Czechoslovakia

DAILY FM COPY

Fc file
Ec. Neg. Czechs

TO: The American Embassy, PRAGUE

There is transmitted herewith as an enclosure to this instruction a draft text of a proposed economic agreement with Czechoslovakia. The Embassy is authorized to submit this draft to the Czechoslovak Government. However, in the case of those articles containing alternative positions, such alternatives should not be submitted with the draft presented at the first meeting.

Dillon
Acting

Enclosure:

Draft text of proposed economic agreement.
(consists of 6 pages)

Circular 175 clearance granted by Acty. Secy Dillon 7/25. See memo to Dillon from EUR, 7/17.

EUR:EE
3 extra copies

CONFIDENTIAL

DRAFTED BY: EUR:EE/KESummerlatte/mlb/eb
7-21-59

APPROVED BY: Albert W. Shaw, Jr.

CLEARANCES:

DECLASSIFIED

Authority NND 979002
By JW NARA Date 6-9-99

KG 59 TGC
UN3 -59-96-39
Lot 620115
Box 28

PAGE 1

ENCLOSURE

July 26, 1959,
PRAGUE,

DRAFT 7/17/59

CONFIDENTIAL

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA
AND THE GOVERNMENT OF THE CZECHOSLOVAK REPUBLIC REGARDING SETTLEMENT
OF MATTERS AFFECTING THEIR ECONOMIC RELATIONS

The Government of the United States of America and the Government of the
Czechoslovak Republic having reached an understanding regarding the settlement
of matters affecting their economic relations, agree upon the following
Articles:

Article I

Settlement of Property Claims

(1) The Government of the Czechoslovak Republic agrees to pay, and the
Government of the United States of America agrees to accept, the following
described sums in full settlement and discharge of all claims of nationals
of the United States against the Government of the Czechoslovak Republic on
account of the nationalization or other taking by Czechoslovakia of property
and of rights and interests in and with respect to property which occurred
between January 1, 1945, and the date hereof:

(a) The sum of \$2,000,000 as specified in Article II of this
Agreement;

(b) The sum of \$3,990,282.54 presently held under United States
Government controls, representing the net proceeds of sale by the
United States of the steel mill which a Czechoslovak enterprise had
purchased in 1947 and paid for in the United States, which sum is
regarded by the two Governments as being paid and received herewith.

(c) A sum of \$1,000,000, United States currency, or such
adjusted lesser amount as may be found due, upon the release of
the properties consisting of cash, securities and bonds to which
the Government of Czechoslovakia claims title and which were attached
in 1952 in the judicial proceedings against the Zivnostenska Banka in
the case of Seben v. Zivnostenska Banka, in accordance with the
provisions contained in Annex attached to this Agreement,
which Annex is incorporated here by reference and which constitutes
an integral part of this Agreement.

(2) The claims of nationals of the United States to which reference is
made in paragraph (1) of this Article are those respecting property, rights
and interests in and with respect to property which at the time of nationaliza-
tion or other taking and on the date this Agreement comes into force were:

A. Directly

CONFIDENTIAL

A-9, Prague, 7/26/59

~~CONFIDENTIAL~~
(Security Classification)

A. Directly owned by individuals who are nationals of the United States of America.

B. Directly owned by a corporation or other legal entity organized under the laws of the United States of America or a constituent state or other political entity thereof, if more than fifty per centum of the outstanding capital stock or other beneficial interest in such legal entity was owned directly or indirectly by natural persons who were nationals of the United States of America;

C. Indirectly owned by persons within categories A and B above through interests, direct or indirect, totaling twenty-five per centum or more, in juridical persons of any nationality which are not compensable under any other international agreement to which the Government of Czechoslovakia is a party.

(3) The Government of the Czechoslovak Republic agrees to compensate nationals of the United States who did not possess such nationality at the time of the nationalization or the other taking of their property, if it has not already done so, and to this end agrees to undertake negotiations with the claimants directly or to provide such compensation under Czechoslovak law.

(First Alternative). The claims of nationals of the United States who did not possess such nationality at the time of the nationalization or other taking, shall be subject to compensation by the order of the Republic of Czechoslovakia either by direct negotiations between that Government and the respective claimants or under compensation procedure prescribed by Czechoslovak law.

(Second Alternative). The claims of nationals of the United States for nationalization or other taking who did not possess such nationality at the time of the nationalization or other taking, shall be treated not less favorably than those of nationals of Czechoslovakia, but in no event less favorably than those of the nationals of any other country.

(Third Alternative: Accept Czech rejection of all reference to late-citizen claimants).

(4) The sums payable to the Government of the United States under paragraph (1) of this Article shall be distributed by the Government of the United States among the several claimants in accordance with such methods of distribution as may be adopted by the Government of the United States. Any determinations with respect to the validity or amounts of individual claims which may be made by the agency established or otherwise designated by the Government of the United States to adjudicate such claims shall be final and binding.

(5) In the

~~CONFIDENTIAL~~
(Security Classification)

DECLASSIFIED

Authority NND 979002
By JW NARA Date 6-9-99PG 59 TGC
UM3 -59-96-39
Lot 620115
Box 28

PAGE 3

A-9, Prague, 7/26/39

CONFIDENTIAL
(Security Classification)

(5) In the interest of an equitable distribution by the Government of the United States among the several claimants for participation in the sums paid and to be paid by the Government of the Republic of Czechoslovakia in full settlement and discharge of claims in accordance with this Agreement, the Government of Czechoslovakia will, upon the request of the claimants or the Government of the United States, and to the extent possible, furnish such information, including certified copies of books, records or other documents as may be necessary or appropriate to support or refute in whole or in part any claim for participation in such sums, and to the same end will permit in a manner consistent with Czechoslovak law the taking of depositions of such witnesses as may be requested by the Government of the United States.

Article II

Release of Monetary Gold

Upon the receipt by the Government of the Czechoslovak Republic of 18,400 kilograms of gold in respect of its share of the gold in the custody of the Tripartite Commission for the Restitution of Monetary Gold, such Government will pay to the Government of the United States the sum of \$2,000,000. The simultaneous delivery of the \$2,000,000 and the 18,400 kilograms of gold shall be made in accordance with arrangements to be agreed upon by the two Governments.

(Alternative). The simultaneous delivery of the \$2,000,000 and the 18,400 kilograms of gold shall be made in accordance with arrangements set forth in Annex _____ hereof.

Article III

Mutual Trade Relations

Both Governments shall endeavor to create favorable conditions for the expansion and consolidation of mutual trade relations. For this purpose, the Government of the United States hereby gives its consent to the establishment in New York City of a branch of the Commercial Section of the Czechoslovak Embassy at Washington. The Government of the United States will also issue a declaration favoring trade relations between Czechoslovakia and the United States.

Article IV

CONFIDENTIAL

(Security Classification)

208963

PAGE 4

CONFIDENTIAL

(Security Classification)

A-9, Prague, 7/26/59

Article IV

United States Army Crown Account

(1) The crown account of the United States Army with the Statni Banka Ceskoslovenska amounting to 7,161,569.92 kcs shall be released for use in accordance with the terms of the agreement signed at Prague, July 25, 1947, with the exception that the following changes are hereby made in the penultimate paragraph of the letter addressed to the American Ambassador on July 25, 1947, and signed by Dr. Bystriicky of the Czechoslovak Ministry of Foreign Affairs:

- (a) the words "United States Army" are replaced by "United States Government";
- (b) the sum of 69,039,355 kcs is replaced by 7,161,569.92 kcs (to reflect the revised crown rate for the United States dollar);
- (c) the number "50" immediately preceding the words "crowns equal one United States dollar" is replaced by "7.2", (or "7.17" whichever is correct).

(2) (Possible United States concession) For purposes other than purchases in Czechoslovakia for export, the United States Government agrees that expenditures from this account shall not exceed 1/3 of the present balance of the account during the twelve-months period following the date this Agreement enters into force, and not more than 2/3 of the present balance of the account during the twenty-four months period following the date this Agreement enters into force, after which the balance can be freely expended at any time. (Note: The fraction 1/3 used in the foregoing paragraph might conceivably be changed to 1/4 or 1/5 in that order.)

Article V

Transfer of Money from United States Public Funds to Payees
In Czechoslovakia

The Government of the United States agrees to remove the restriction contained in its regulation known as Treasury Department Circular 655 concerning the transfer of money from United States public funds to payees in Czechoslovakia, and the Government of Czechoslovakia hereby assures the Government of the United States that:

- (a) The Czechoslovak Government places no obstacles or limitations preventing recipients of allowances, social security

payments,

CONFIDENTIAL

(Security Classification)

DECLASSIFIED

Authority NND 9779002
By JW NARA Date 6-9-99

KG 57 TGC
UN3 -59-96-59
Lot 620115
Box 28

PAGE 0

Prague, 7/26/59

CONFIDENTIAL
(Security Classification)

Article II

Debt Service on Czechoslovak Dollar Bonds

(1) The Government of Czechoslovakia agrees to resume the debt service on Czechoslovak dollar bonds under conditions to be agreed upon between the representatives of the owners of these securities and the Czechoslovak Ministry of Finance. If no such agreement be achieved within six months of the date of this Agreement, the question shall be discussed through diplomatic channels between the United States Government and the Czechoslovak Government.

(2) In the event of discussion through diplomatic channels of this matter, the United States reserves the right to review the appropriateness of the continuation in New York of a branch of the Commercial Section of the Czechoslovak Embassy at Washington referred to in Article III of this Agreement.

(Alternative) The substance of paragraph (2) shall be the subject of an aide-memoire to be handed to the Czechoslovak representatives when the Agreement is signed.

The present Agreement shall enter into force on the day it is signed.

Done in duplicate at Prague this _____ day of August, 1959.

For the Government of the United States of America

John M. Allison

For the Government of the Czechoslovak Republic

CONFIDENTIAL
(Security Classification)

208966

DECLASSIFIED

Authority NND 977002By JW NARA Date 6-9-99PG 57 TGC
UN3 -59-96-79
Lot 62015
Box 28

Ely Mauer would prefer not to have Gechs arrange gold transaction with Swiss or other party, as it would require participation by such outside party in gold delivery by TGC.

208967

Fred Smith - 7/21

Deliver gold from London:

1. London price is \$35.14 per oz., whereas Treas. net price is \$34.91 (35 - 1/4%).

2. We could avoid gold problem here, {not only on \$2 million but on whole amount.

3. Mint charges in N.Y. on \$120,000 of gold would be avoided (small amount).

Cost of transatlantic shipment of gold is approximately 15¢ per oz.

Fred Smith - 7/22

1. Treas would prefer to accept \$2,000,000 gold in payment, rather than "purchase" such gold, + would be willing to waive the 1/4% Commission in order to accomplish this.

2. Smith has dictated memo to Under Secy Baird (?), on instructions of E. Arnold, + wants to know whether he should send it forward.

208968

Maurer 2766

DECLASSIFIED
Authority: NND 979002
By: JLNARA Date: 6-9-99

PG 59 TGC
LNU3 - 59-92-39
Lot 620115
Box 28

REPRODUCED AT THE NATIONAL ARCHIVES

DECLASSIFIED

NND 979002

Authority
By JUNARA Date 6-5-99

PG 59 TGC
LN3 -59-90-59
Lot 620115
Box 28

Bank of England - Oct 28, 1957

39,000 oz.
35.

195
117

\$1,365,000 bar gold

450,000 oz.
35.

225
135

\$1,575,000 gold coins

35) 2,000,000.
175

(57,142
.15

250
245

285710
57142

50
35

\$8,571,300

Approx 8,600,000.

150
140
100
70
30

DECLASSIFIED
Authority NND 979002
By JW NARA DE 6-9-99

PG 27 TGC
DNB - 59-10-10
Lot 620115
Box 28

**OUTGOING
AIRGRAM**

Department of State ~~MD~~ ~~CC~~ ~~CC~~

000221

JS

CONFIDENTIAL
Classification

53
Origin
L
Info
SS
SP
C
L
INR
H
EUR
E
DCL
RMR

NO.
FROM: Secretary of State
TO: The American Embassy, BRUSSELS G-4
RPTD INFO: American Embassy, PRAGUE G-7

JUL 14 8 41 PM '59

Page 1 of 3 Pages

Reference is made to Department's instruction G-63 to Prague of October 23, 1958, repeated for info as G-89 to American Embassy, Brussels, which concerns arrangements for the simultaneous delivery of 18,400 kilograms of gold to Czechoslovakia and \$2,000,000 to the United States.

The Department believes it is desirable at this time for you to bring to the attention of your British and French colleagues and the Secretary General of the TCC Commission, orally and informally and perhaps on an individual basis, the matter of the arrangements which might be worked out with the Czechoslovakian Government with respect to the simultaneous delivery described above. You may explain that we are engaged in the process of negotiating and there is a possibility that we may be able to reach a successful conclusion and that, in light of this, the Department thinks it best to advise of the arrangements it envisages with respect to the Czech gold and the receipt of \$2,000,000 by the United States. We expect to be in a position to sign the award at the time of the simultaneous delivery.

(1) We contemplate a procedure in Brussels in which, at the same time

CONFIDENTIAL
Classification

Drafted by: L/FE:EMaurer:d1 7-14-59 for L/E
Airgram transmission and classification approved by: L/FE:EMaurer 2760

Clearances: FN: Mr. Cerre (In draft)
L/SFP: Mr. Griffin (In draft)
EE: Mr. Sommerlatte (In substance)

REPRODUCTION FROM THIS COPY IS PROHIBITED UNLESS "UNCLASSIFIED"

CONFIDENTIAL

the United States representative signs the Czech award and the delivery order (theretofore signed by the French and U.K.) and the TGC Secretary General hands the delivery order to the Czech representative, the latter would turn over a certified check or cashier's check on a United States bank, or perhaps a Swiss bank, for \$2,000,000 to the United States representative. This is our preferred procedure.

(2) The Czechs have, however, indicated that they may possibly wish to utilize part of the gold they are to receive to pay the United States. In other words, instead of a certified check or cashier's check for \$2,000,000 the Czechs might be prepared to turn over a delivery order for \$2,000,000 in gold. In this connection it would be our intention that the \$2,000,000 in gold should be drawn from the gold on deposit with the Federal Reserve Bank in the name of the TGC, rather than from a Czech depository abroad. This second alternative would also require advising the Federal Reserve Bank before hand that it was contemplated the Czechoslovakian Government would receive a delivery order for a certain amount of gold but that the Czechoslovakian Government would, in turn, issue a delivery order for a portion of the gold to the United States.

You should inquire whether the other Commissioners or the Secretary General see any difficulty for either of the two alternatives envisaged. You should caution your colleagues and the Secretary General of the TGC that, of course, we are still at the negotiating stage and that while we have hopes of concluding an agreement, we consider important that the words of the present matter get to the attention of the Czech Government. In connection with the above, you should approach the

CONFIDENTIAL

DECLASSIFIED

Authority NND 9779002
By JW NARA Date 6-9-99

C G 59 TGC
UN3 -59-90-29
Lot 624115
Box 28

3

BRUSSELS

CONFIDENTIAL

Secretary General and state that it would be appreciated if he would provide us with draft copies of the typical documents which pass in other delivery cases, made out, however, for the Czech case. (TGC covering letter announcing further distribution, waiver, receipt, acceptable Czech answering letter and attached acceptable Czech full powers). Among other things we will wish to examine these documents to see whether they need to be altered in view of the telescoped procedure proposed in 1 and 2 above.

Since a meeting with the Czechoslovakian representatives may be arranged for the latter part of this month, it would be desirable for the Department to have any reactions (including draft documents) before July 24.

= DILLON

CONFIDENTIAL

DECLASSIFIED
Authority NND 979002
By JW NARA Date 6-9-99

PG 59 TGC
UM3 -59-96-99
Lot 620115
Box 28

OUTGOING
AIRGRAM

Department of State

B 00221

CONFIDENTIAL
Classification

53
Date
L
SE
ST
C
L
INR
H
EUR
E
DCL
RMR

NO
FROM: Secretary of State
TO: The American Embassy, BRUSSELS
REF ID: American Embassy, PRAGUE

JUL 14 8 41 PM '59
Page 1 of 3 Pages

Reference is made to Department's instruction G-63 to Prague of October 23, 1948, regarding for info an G-87 to American Embassy, Brussels, which concerns arrangements for the simultaneous delivery of 18,400 kilograms of gold to Czechoslovakia and \$2,000,000 to the United States.

The Department believes it is desirable at this time for you to bring to the attention of your British and French colleagues and the Secretary General of the TRU Commission, orally and informally and perhaps on an individual basis, the matter of the arrangements which might be worked out with the Czechoslovakian Government with respect to the simultaneous delivery described above. You may explain that we are engaged in the process of negotiating and there is a possibility that we may be able to reach a successful conclusion and that, in light of this, the Department thinks it best to advise of the arrangements it envisages with respect to the Czech gold and the receipt of \$2,000,000 by the United States. We expect to be in a position to sign the warrant at the time of the simultaneous delivery.

(1) We contemplate a procedure in Brussels in which, at the same time

CONFIDENTIAL
Classification

Drafted by: L/FE:Elmer:dl 7-14-59 for L/S	Airgram transmitted and classification approved by: L/FE:Elmer
Checked by: FM: Mr. Carr (In draft) EE: Mr. Sommerlatte (In substance)	L/SFP: Mr. Griffin (In draft)

REPRODUCTION FROM THIS COPY IS PROHIBITED UNLESS "UNCLASSIFIED"

DECLASSIFIED

Authority NND 979002By JW NARA Date 6-9-99RG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

BRUSSELS

CONFIDENTIAL

the United States representative signs the Czech award and the delivery order (therebefore signed by the French and U.K.) and the TGC Secretary General hands the delivery order to the Czech representative, the latter would turn over a certified check or cashier's check on a United States bank, or perhaps a Swiss bank, for \$2,000,000 to the United States representative. This is our preferred procedure.

(2) The Czechs have, however, indicated that they may possibly wish to utilize part of the gold they are to receive to pay the United States. In other words, instead of a certified check or cashier's check for \$2,000,000 the Czechs might be prepared to turn over a delivery order for \$2,000,000 in gold. In this connection it would be our intention that the \$2,000,000 in gold should be drawn from the gold on deposit with the Federal Reserve Bank in the name of the TGC, rather than from a Czech depository abroad. This second alternative would also require advising the Federal Reserve Bank before hand that it was contemplated the Czechoslovakian Government would receive a delivery order for a certain amount of gold but that the Czechoslovakian Government would, in turn, issue a delivery order for a portion of the gold to the United States.

You should inquire whether the other Commissioners or the Secretary General see any difficulty for either of the two alternatives envisaged. You should caution your colleagues and the Secretary General of the TGC that, of course, we are still at the negotiating stage and that while we have hopes of concluding an agreement, we consider important that no word of the present matter get to the attention of the Czechoslovakian Government.

In connection with the above, at an opportune time you should approach the

CONFIDENTIAL

208974

DECLASSIFIED

Authority NND 977002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 -59-96-39
Lot 620115
Box 28

BRUSSELS

CONFIDENTIAL

Secretary General and state that it would be appreciated if he would provide us with draft copies of the typical documents which pass in other delivery cases, made out, however, for the Czech case. (TGC covering letter announcing further distribution, waiver, receipt, acceptable Czech answering letter and attached acceptable Czech full powers). Among other things we will wish to examine these documents to see whether they need to be altered in view of the telescoped procedure proposed in 1 and 2 above.

Since a meeting with the Czechoslovakian representatives may be arranged for the latter part of this month, it would be desirable for the Department to have any reactions (including draft documents) before July 24.

DILLON

CONFIDENTIAL

DECLASSIFIED
Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
LN3 -59-96-59
Lot 620115
Box 28

~~JPH~~
~~JWS~~
~~WF~~
1111. Carve

CONFIDENTIAL

CONFIDENTIAL

- 1 -

July 2, 1959

MEMORANDUM

I believe Article II as recently drafted should be deleted. In accordance with the views of both of our meeting, we do not desire to include in the agreement any commitment with respect to the turnover of the 15,400 kilograms of gold to Czechoslovakia. There is a two-fold reason for this. First, we do not wish to promise that we will render assistance in the event that the Czech Government should be unable to obtain the gold. Second, it is considered desirable to frame the clause on this matter to be so worded that we would only receive our two million dollars upon the receipt of the gold. I have examined the draft text you have submitted and I have the following comments:

1. With respect to Article I (1) (a), I suggest two alternative versions as follows:
 The Czech Government may feel that it cannot leave such an important clause in the agreement of 20 million dollars, to be paid to the United States upon the receipt by Czechoslovakia of 15,400 kilograms of gold in respect of its share of that tip of the gold in the custody of the Tripartite Gold Commission. The simultaneous delivery of the two million dollars and upon at the 15,400 kilograms of gold shall be made in accordance with arrangements to be agreed upon by the two governments. In fact, it is important to them that they say wish, in addition, to trigger the gold payment of 20 million dollars to be paid by the United States upon the receipt by Czechoslovakia of 15,400 kilograms of gold in respect of its share of the gold in the custody of the Tripartite Gold Commission. The simultaneous delivery of the two million dollars and the 15,400 kilograms of gold shall be made in accordance with arrangements set forth in Annex A hereof. It may be desirable at this stage to assume that the Czech Government will be prepared to give us a check in the amount of two million dollars. In the event the Czech Government wishes to give us the two million dollars in gold from the gold it is to receive, or from other gold at its disposal, the alternatives might instead be drafted to have "two million dollars in gold (_____ kilograms)", instead of "two million dollars" in the two sentences.

78 Mr. Carve

I believe

L/72 (for L/R):[unclear]

CONFIDENTIAL
CONFIDENTIAL

208976

DECLASSIFIED
Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 - 59-96-39
Lot 620115
Box 28

CONFIDENTIAL

- 2 -

July 2, 1959

3. I believe Article II as recently drafted should be deleted. In accordance with the wishes set forth at our meeting, we do not desire to include in the agreement any commitment with respect to the turnover of the 18,400 kilograms of gold to Czechoslovakia. There is a two-fold reason for this. First, we do not wish to promise that we will render a decision in the Czech favor in the Czech claim. Secondly, delivery of the 18,400 kilograms of gold is dependent on French and British concurrence. Accordingly, it is considered desirable to frame the clause on this matter to be so worded that we would only receive our two million dollars when the Czechs receive their 18,400 kilograms, without our promising them that they would get the gold.

4. With respect to alternative 1 above, as I stated at the meeting, I have serious question whether the Czech Government will be willing to buy this alternative. The Czech Government may feel that it cannot leave such an important clause, involving the receipt of 20 million dollars, to the contingency of future arrangements to be mutually worked out between themselves and ourselves. They may very well feel that the arrangements as to the simultaneous delivery should not be left to the risks of future agreement, but should be set forth and agreed upon at this stage of the negotiations. I am inclined to believe that this is the attitude they will adopt. It is also possible this clause may, in fact, be so important to them that they may wish, in addition, to trigger the whole agreement at its implementation. In other words, they may suggest that the agreement not go into effect until there has been, in fact, the receipt by them of the 18,400 kilograms of gold at the same time as we receive the two million dollars.

The simultaneous delivery of the two million dollars and

5. With respect to the arrangements to be embodied in the Annex, our G-63 to Prague (G-63 to Brussels) of October 29, 1958, give the general procedure that we think should be followed. It may be desirable at this stage to follow up on this message and, in fact, ascertain the acceptability of this procedure to our British and French colleagues, or of alternative procedures. After we have done this, we will be in a better position to submit a draft Annex on such arrangements.

gold at its disposal, the alternatives might instead be drafted to have "two million dollars in gold (_____ kilograms)", instead of

see L/R Mr. Sumnerlatte
EE Mr. Sumnerlatte
FH Mr. Carro

discussed with E. Maurer - 7/6 Cur

I believe

L/FE (for L/R):EMaurer:dl

CONFIDENTIAL

208977

DECLASSIFIED
Authority NND 977002
By JW NARA Date 6-9-99

PG 57 1GC
UN3 -59-96-89
Lot 62015
Box 28



~~CONFIDENTIAL~~ CONFIDENTIAL

April 10, 1959

~~III - Gold claim of Czechoslovakia~~

(U.S. dollar value at \$125.276 per kilogram)

Total gold received by TCG and available to satisfy 64,131.6 of all recognized claims (including Czechoslovakia's), exclusive of general reserve and anticipated recovery under Portuguese agreement

\$370,975,466.12

64,131.6 of Czechoslovakia's recognized claim (U.S. has not agreed to award)

\$ 31,752,451.03

Gold already delivered to Czechoslovakia

11,009,725.70

Additional gold reserved for Czechoslovakia

\$ 20,742,725.33

CPD:PH:GAG:ro: LTH
4/10/59

CONFIDENTIAL

DECLASSIFIED

Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 -59-96-59
Lot 620115
Box 28

AIR POUCH

CONFIDENTIAL
(Security Classification)

File

DO NOT TYPE IN THIS SPACE

FOREIGN SERVICE DESPATCH

Ec. Neg. Czechos.
811.0049/2-1359

FROM : **AMEMBASSY, PRAGUE**

396

TO : **THE DEPARTMENT OF STATE, WASHINGTON**

February 13, 1959

REF : **Embassy's Despatch No. 392, February 12, 1959.**

ONLY EN COPY

KAD
L-2 #11

35 For Dept. Use Only	ACTION	DEPT.
	REC'D	IN F O
	EUR-5	RMR-2 REP-1 IRC-8 E7 W-1 ICA-10
	2-20	CIA-10 COM-10 TR-3 FRB-2 XMB-4 TAR-2

SUBJECT: **United States-Czechoslovak Economic Negotiations**

OSD-4
ARMY-4
NAVY-3
AIR-3
IN-7

In introducing the latest Czechoslovak proposals for an economic agreement, as presented and explained in the reference despatch, Deputy Foreign Minister Hajek stated that our negotiations had now reached a "decisive" stage and his Government therefor wished to reduce to writing the principles which should govern such an agreement. I wish to comment on these proposals and make some suggestions as to the reply which should be made to them.

I believe the time has come when the highest levels in the Department must make a decision as to how important the conclusion of an overall economic agreement with Czechoslovakia is in the light of political considerations governing our relations with Eastern Europe. If, as I believe, the conclusion of such an agreement will contribute, even in small degree, to the enhancement of the United States position in this part of the world, then it should be worthwhile to make some minor concessions if these will bring about a settlement. While there can be no absolute certainty of such a result, we can be sure that should the negotiations break down the blame in Czechoslovakia and Eastern Europe will be placed on the United States and our effectiveness will be just that much less. If the Department agrees with this point of view I believe we should not stick at technicalities and should only insist on points of the utmost importance.

LUMP SUM SETTLEMENT

The Czechs have proposed a lump sum settlement of \$11,000,000 and have retreated from their position reaffirmed as late as October 9, 1958, that the United States should in some manner acknowledge in the agreement responsibility for the so-called "loss" of \$7,000,000 in the value of the steel mill. Mr. Hajek also reaffirmed during the meeting agreement to the principle of "simultaneous" satisfaction to both governments with respect to the payment to the United States of the \$2,000,000 above the receipts from the steel mill and the receipt by the Czechs of their share of the gold pool. In addition Mr. Hajek retreated somewhat from the position previously taken that the \$2,000,000 payment to the United States would not be taken from the receipts of the gold pool but from other Czech assets. He said on Wednesday that he did not wish to exclude the possibility of reimbursement to us from their gold pool receipts. Mr. Hajek made clear orally that it would be necessary to agree on a detailed statement of just how this transaction should take place but expressed the opinion that if agreement were reached in principle, it should not be too

JMallison:jw

CONFIDENTIAL

REPORTER

INFORMATION COPY

Retain in divisional files or destroy in accordance with security regulations.

THE ABOVE INSTRUCTION APPLIES TO THE DEPARTMENT ONLY.

208979

DECLASSIFIED

Authority NND 977002
By JW NARA Date 6-9-99PG 59 TGC
UN3 -59-96-99
Lot 620115
Box 28

CONFIDENTIAL

(Classification)

Page 4 of
Encl. No. _____
Desp. No. 396
From Prague

difficult to draft such a statement. As will be seen later he also made an "informal personal" proposal which, if accepted, would result in the lump sum being increased by approximately \$1,000,000.

I believe we should agree in principle to the Czech proposals as contained in paragraphs 2 and 3 of the Statement of Principles which is Enclosure No. 2 of the reference despatch. Our attitude towards Mr. Hajek's "personal" proposal will be discussed later.

DECLARATION FAVORING TRADE RELATIONS

Paragraph 1 of the Statement of Principles contains the agreement of the United States to issue a statement favoring trade relations between Czechoslovakia and the United States and paragraph A of the ANNEX to these Principles (Enclosure No. 3 to reference despatch) expands on what the Czechs mean by this. The Annex states that the United States statement "shall contain a promise of further steps to be taken by the United States Government for the purpose of complete normalization of trade relations." In response to my question as to just what this involved, Mr. Hajek was not too precise. He maintained this should not create great difficulty and said that at a later stage in the negotiations the Czechs would be prepared to submit a draft statement for our consideration. I stated I thought we had made clear in previous meetings just how far we could go in this respect and I expressed the hope that these previous statements would be borne in mind. In reviewing the records of previous meetings, after the last session with Mr. Hajek, I find that in the 35th meeting on October 30, 1957, Dr. Pudlak, for the Czechs, used almost the same language and explained "complete normalization" as being "either in the form of a bilateral arrangement or within the scope of the General Agreement on Tariffs and Trade." I assume that our domestic legislation prevents agreement to acting within the scope of GATT. I am not certain just what a "bilateral arrangement" implies but I should think we would need to be most cautious about agreeing to anything of the sort.

I believe we should stick to the position of issuing a general statement favoring the expansion of peaceful trade between our two countries. It would be most helpful if the Department could furnish the Embassy with a draft of such a statement. We could then compare it with the promised Czech draft and, if the Czechs really want an agreement, we should then be able to work out a mutually acceptable draft.

ESTABLISHMENT OF COMMERCIAL SECTION OF CZECHOSLOVAK EMBASSY IN NEW YORK

The ANNEX states that the Commercial Section of the Czech Embassy established in New York "shall enjoy all rights and privileges of a diplomatic mission." Unless there are overriding reasons not apparent here I believe we should agree on this.

ARMY CROWN ACCOUNT

Paragraph 4 of the Principles states the Army crown account shall be released in accord with "the statement of the Czechoslovak representative of February 11,

CONFIDENTIAL

208980

DECLASSIFIED

Authority NND 979002
By JW NARA Date 6-9-99

RG 59 TGC
UN3 -59-96-37
Lot 620115
Box 28

CONFIDENTIAL
(Classification)

Page _____ of _____
Encl. No. _____
Desp. No. 396
From Prague

1959". That statement is Enclosure No. 4 to the reference despatch and at first glance is a most curious document. As I pointed out to Mr. Hajek at our meeting, this document contains statements which are, in our view, completely inaccurate and offensive and which have no place in an economic agreement. After some argument Mr. Hajek said the document was merely to make clear the reasons for the Czech position on this question and was not meant to be a part of the final agreement. In essence the Czechs maintain that the Agreement of 1947 is no longer applicable because the conditions prevailing at the time of its signature have changed. They are obviously most reluctant, under present conditions, to reaffirm any agreement with United States military authorities. They apparently fear this would be misunderstood by their colleagues in the Warsaw Pact and would be politically embarrassing to them. However, they are perfectly willing to re-negotiate the agreement and make substantial portions of the released account available for purchases in Czechoslovakia by "the United States Government", not the Department of the Army or Department of Defense. What disposition is then made of these purchases is of no concern to the Czech Government and if they should turn up in U.S. Army warehouses in Europe, nothing would be said. We could argue at length with them on this point, but I am afraid the result would only be a continuation of blocking of the account. On the other hand if we adopt a pragmatic approach to this problem and agree to renegotiate the 1947 Agreement we do stand a chance of getting at least a portion of our funds back for our use. I recommend we make the attempt.

CANCELLATION OF PROVISIONS OF TREASURY CIRCULAR 655

Paragraph 5 of the Principles sets for the U.S. agreement to the cancellation of provisions of Treasury Circular 655 and paragraph D of the Annex gives the statement of the Czech Government designed to make this possible. In my opinion this is generally satisfactory but it should be expanded to include some assurance that recipients of U.S. Treasury checks would have right of free access to the U.S. Embassy in Prague in order to establish their right to such checks and for other purposes in connection with the receipt of the checks.

FIRM ACCOUNT

Mr. Hajek did not expand on this point but I recommend we enter negotiations with him on the point as stated in Paragraph 6 of the Principles. I do not believe the question of whether we obtain the 14.32 or the 7.2 rate is of sufficient importance to cause breakdown of the talks and while we should begin by asking for the more favorable rate we should be willing to accept the other. Department's instructions are requested on what purposes would be acceptable for use of account. It is probably not necessary to have such statement at once if agreement in principle can be given to Czech position.

U.S. GRANT OF EXPORT LICENCES FOR CZECH GOODS

I am not able to judge from information available here whether goods mentioned in paragraph 7 of Principles are eligible for export under present regulations. We have already agreed in principle to this request and I believe we should do everything possible to meet Czech demands.

CONFIDENTIAL

208981

DECLASSIFIED
Authority NND 9779002
By JW NARA Date 6-9-99

RG 59 TGC
LN3 -59-96-59
Lot 620115
Box 28

CONFIDENTIAL
(Classification)

Page 4 of
Encl. No. _____
Desp. No. 396
From Prague

RESUMPTION OF DEBT SERVICE ON CZECHOSLOVAK DOLLAR BONDS

Paragraph 9 of the Principles obligates Czechoslovakia to resume debt service on dollar bonds under conditions to be agreed upon between the representatives of the owners and the Czech Ministry of Finance, with the provision that if no agreement is reached within six months the question will be discussed through diplomatic channels. This is substantially as previously agreed upon and if agreement is reached on all other matters I believe we should concur in this.

RELEASE OF BLOCKED AND BESTED CZECH ASSETS IN UNITED STATES

While we have previously given agreement in principle to this demand which is stated in paragraph 8 of the Principles, nevertheless it is believed that paragraph C of the Annex could be interpreted to apply in this case and this creates difficulties as will be seen below.

ZIVNOSTENSKA BANKA AND IBM CASES

While these two matters are not directly linked in the documents presented by Mr. Hajek they are in fact related as will be seen. Paragraph C of the Annex requires the United States Government to "see to it" that United States courts discontinue proceedings in connection with claims arising out of nationalization measures and further states that should any such claim be satisfied out of Czech assets in the United States "before or after" the conclusion of the present agreement, "the sum in question will be deducted from the lump sum compensation..." It is specifically stated that this principle shall apply to the Zivnostenska Banka case as well as the case against the Statni banka as mentioned in the statement of Mr. Hajek of January 27, 1959. (Reported in Embassy's despatch No. 365 of January 28, 1959.)

The problem raised by this paragraph is the most difficult facing us in these negotiations and one for which at the present time I see no good solution. Mr. Hajek in the course of his oral presentation put forward what he termed a "personal, informal" suggestion, but which, it became evident, would be acceptable to the Czechs if agreed to by the United States. This was meant to cover not only this case but also the IBM case. Hajek's proposal is that if the U.S. Government will take steps to see that those assets of the Zivnostenska Bank now in the hands of a receiver, be conserved and turned back to Czechoslovakia, the Czech Government will increase the amount of the lump sum settlement by an equivalent amount. (The amount involved is just under \$1 million.) The Czech Government will not quibble over the approximately \$50,000 already distributed by the receiver. If this is done Hajek also suggests that the United States throw the IBM case into the lump sum settlement. He further states that if the United States Government prefers to treat the IBM case as originally proposed along the same lines as the bondholders case the Czechs will be willing to do so and will grant a visa to an IBM representative after the conclusion of the overall agreement. In attempting to persuade us of the merits of the first course both Hajek and Pelermy indicated that the taxes and assessments pending against IBM were of such a magnitude that there would be little left to give to IBM as a result of separate negotiations. Pelermy said at one point that the tax assessment on the machines alone amounted

CONFIDENTIAL

DECLASSIFIED

Authority NND 977002
By JW NARA Date 6-9-99RG 59 TGC
UN3 -59-96-39
Lot G20115
Box 28

CONFIDENTIAL

(Classification)

Page _____ or

Encl. No. _____

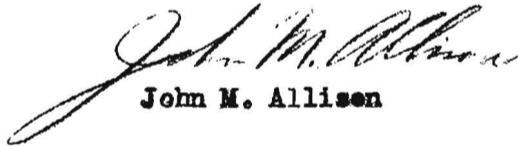
Desp. No. 596From Prague

to some Krs. 30,000,000 and that in addition there would be taxes on the monthly receipts.

As the Department will see from the report of the meeting on February 11, I made as clear as I could my doubts about our ability to agree to any such solution. In addition I sent a personal informal note to Mr. Hajek the next day re-emphasizing the difficulty we would have in meeting his desires. A copy of this letter is enclosed. It is certainly true however, that we have been on notice since November 29, 1955, of the Czech position on this point and I cannot help wondering whether or not we did everything possible to try to conserve the assets which the Czechs believed they had. As pointed out in my letter to Mr. Hajek, there probably has been and I believe continues to be a real inability on the part of the Czechs to understand how our system works. While Hajek, himself, may have such an understanding and probably does, he may well not be able to convince the Party leaders who will make the final decision.

The only suggestion for meeting the Czech point in any way which occurs to me is to get them to agree to omit the words "before or" in paragraph C of the Annex upon receiving our oral assurance that, in fact, the assets of the Zivnostenska Banka will not be further liquidated and will be available for adding to the lump sum. I am not at all sure we can or should do this or that we could persuade the suspicious Czechs to accept our oral assurances. I am also not at all sure we should put the IBM case into the lump sum settlement although the statement in Mr. Sharer's memorandum of January 30 to Mr. Kearney of L/EUR, that over the years IBM "has obtained rental payments well in excess of the value of its investment..." makes me more inclined to agree to some such procedure.

I hope the Department may be able to offer some suggestion as to how to break this deadlock. Failing such a suggestion I recommend that I be authorized to agree to all other points in the Czech proposals in accordance with the suggestions in this despatch and then make it clear to them that this point is the only stumbling block to an agreement. It is just possible that if they can be convinced this is a point on which we cannot budge, even if we wished to do so, they will conclude the overall benefit of an agreement outweigh their very real objections in principle to our handling of the Zivnostenska Banka case and related matters. In this connection I believe a formal reply should not be made too soon for we should at least endeavor to give the impression of really exploring the possibility of meeting the Czech wishes. I would suggest a reply be made within a month but not before the elapse of two or three weeks. If in the meantime any further suggestions occur I shall pass them on but I do not wish this despatch to miss this week's punch.


John M. Allisen

Enclosures:

1. Copy of informal note to Mr. Hajek.

CONFIDENTIAL

208983

DECLASSIFIED

Authority NND 977002
By JW NARA Date 6-9-99RG 57 TGC
LN3 -59-96-59
Lot 62015
Box 28

CONFIDENTIAL

(Classification)

Page 1 of
Encl. No. 1
Desp. No. 396, 2/13/59
From PragueAmerican Embassy,
Prague, Czechoslovakia,
February 12, 1959.

Dear Mr. Minister:

Since our meeting yesterday afternoon I have been going over the records of the previous meetings in order to refresh my memory as to exactly what statements had been made on both sides, with particular reference to action by United States courts affecting the status of Czechoslovak property physically located in the United States. As a result of this review I am afraid that there has been left in the minds of the Czechoslovak negotiators an uncorrected impression of the real nature of the separation of powers and the role of our Judiciary in matters affecting international affairs.

In the second meeting of the present series of negotiations, on November 29, 1955, Dr. Pudlak raised the question of Czechoslovak property in the United States and requested the assurance of the United States Government that the "legal and de facto status" of this property would not be impaired during the negotiations. In the third meeting, on December 2, 1955, Mr. Vedeler, for the United States, said that the United States could give no such assurance respecting possible court actions and he then pointed out the nature of the separation of powers between the Executive and Judiciary branches of our Government. In the same meeting Dr. Pudlak continued his discussion of this point and, according to our records, he claimed that the United States Government would be responsible under international law for any action taken within its jurisdiction. He further claimed that the separation of powers was not valid in international law but only internally in the United States and that the United States Government bears the responsibility for all acts, whether administrative or judicial, under its jurisdiction. He is further reported to have said in substance that even internally United States courts take the position that foreign policy is binding on the Judiciary.

I do not

His Excellency
Jiri Hajek,
Deputy Minister of Foreign Affairs,
Prague.

CONFIDENTIAL

208984

DECLASSIFIED
 Authority NND 9779002
 By JW NARA Date 6-9-99

RG 57 16C
 UN3 -57-96-39
 Lot 620115
 Box 28

CONFIDENTIAL
 (Classification)

Page 2 of
 Encl. No. 1
 Desp. No. 396, 2/13/59
 From Prague

-2-

I do not find in the records presently available to me an adequate refutation of what is obviously a misunderstanding by Dr. Pudlak of the American system of government and constitutional provisions, as well as, it seems to me, somewhat a misunderstanding of international law. When Dr. Pudlak states that United States courts take the position that foreign policy is binding on them, I believe he did not have a clear understanding of United States constitutional processes. Paragraph 2 of Article 4 of the United States Constitution states as follows:

"This Constitution, and the laws of the United States in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the Supreme Law of the Land; and the Judges in every state shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding."

You will note from the above paragraph that it is only when a treaty with a foreign government has been made by the proper United States authorities that it is considered part of the law of the land and is binding on United States courts. It is only under such circumstances that United States courts can be said to take the position that foreign policy is binding on them. Between Czechoslovakia and the United States there has not been, and is not at present, any treaty or agreement relating to Czechoslovak property physically within the United States. I believe that under international law the sovereignty of a country over property physically located within its boundaries is recognized unless there is some international treaty or agreement providing otherwise. In the absence of such an agreement, the United States Government cannot be considered responsible to Czechoslovakia or any outside authority for acts affecting Czechoslovak property within the United States.

My purpose in sending you this informal note is merely to re-emphasize what I said yesterday about the extreme difficulty my Government will have in agreeing to the position set forth by you concerning Czechoslovak assets in the United States which have been affected by court action. I do not in any way go back on my statement to you yesterday that I shall forward not only the documents you gave me to my Government, but shall also make a full report of your oral statements and your informal suggestions as to how this matter might be solved. This I am doing at once and I shall let you know as soon as any response is received from Washington.

I hope the above may be helpful to your understanding of the

CONFIDENTIAL

208985