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SUBJECT: Analysis of Swiss Intentions at London Debt Conference

The Swiss delegation to the London Debt Conference, headed by Minister STUCKI will use, as one of its negotiating weapons, the threat of a reversal of Swiss policy in international economic cooperation. This threat can be conveniently examined under the three steps which have been indicated might be taken; 1) Withdrawal of the Swiss delegation from the London Debt Conference 2) Withdrawal of Switzerland from EPU, and probably OEEC 3) Refusal to implement the solution of the Washington Accord, already initialled.

The Legation believes that these threats are a bluff, to be used in negotiating, and that the Swiss Government does not intend to carry them out, except possibly the third item. The French Embassy and the British Legation at Bern have come to similar conclusions, and have recommended to their delegations at London that the threats be met firmly.

I. Withdrawal from the Debt Conference. The first step would follow upon a refusal at London by the Conference to admit the Swiss clearing claim of about SF 1.2 billions. The Swiss arguments here are that the Swiss claim is only smaller than that of the United States and the United Kingdom; that to require Switzerland to forego such a substantial sum would be discriminatory; that this debt arose from the same type of credit transaction as is now being required of Switzerland in EPU. There is also self-justification, i.e., that Switzerland has invested and given away more per capita in postwar European reconstruction than the United States; and that Switzerland has foregone its claim to any reimbursement under the Washington Accord. This latter point has been made several times by responsible Swiss officials, so that it now appears certain that Switzerland is claiming nothing under the Accord itself. The conclusion is therefore that, unless this claim is met, Switzerland should withdraw from the Conference and negotiate a settlement directly.

If, however, Switzerland should withdraw from the Conference, it would be at the risk of delaying, and possibly not getting a settlement of the private debt claim of about SF 1.5 billion, for which there is

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(NOTE UNDERSCORING IS NOT PART OF THE ORIGINAL DOCUMENT) some chance at London, as well as the clearing debt for which there is little chance. The only conceivable weapons which Switzerland could use in negotiating directly with Germany would be trade and credit. The present imbalance in Swiss trade with Germany would allow, in other circumstances, for Germany to retire fairly rapidly a debt of the size involved. However, it must be assumed that the Allies have estimated German capacity to pay on her external debts closely enough so that there would be little remaining in the next few years for a creditor who did not join in the general settlement. Moreover, within the framework of EPU, the Swiss-German trade balance is not available directly to Switzerland.

There is no doubt that Switzerland intends to turn the screws up tight in its forthcoming trade negotiations with Germany in March. The single issue of the new German customs tariff would be a sufficient guarantee of that. Furthermore, Switzerland is an extremely important market for Germany now, although the reverse is also true, and Switzerland could not afford to have a complete breakdown in this trade.

As for the credit-worthiness issue, particularly for bank loans, Germany in the next few years is more likely to rely on U.S. than on Swiss credit sources. Germany will undoubtedly be anxious to establish its credit position but, having made a complete debt settlement offer at London, which is accepted by all except Switzerland, it would seem that Germany could afford to let the Swiss dangle for a while.

II. Withdrawal from EPU. Since, however, the EPU framework will not allow for the type of negotiations which Switzerland might find necessary after retiring from the debt conference, Switzerland might withdraw from EPU. The Swiss Government would have much support in popular opinion, and among some bankers, for such a move. The argument runs that Switzerland joined the EPU because of the objective of liberalized trade, the need for a credit mechanism that would support increased European trade, and to avoid isolation from its most important trading partners. In present circumstances, however, Switzerland itself is having to apply more and more controls to trade merely to avoid the increase in trade to which EPU is dedicated; the situation in France and the sterling area does not permit a solution of international trading requirements such as the EPU offers; and Switzerland does not now need to look for outlets for its goods, since the buyers are seeking Swiss goods.

The fallacies of these arguments are readily apparent to the Swiss Government and banking officials with whom the decision really rests. They have given repeated unofficial assurances that Switzerland will not withdraw from EPU. Recognizing the advantages of, and need for EPU, they are only seeking to make revisions in the EPU charter which they consider indispensable to its further life. The principal objective would be a stipulation that gold payments must be begun at the same time with the first credit tranche, and the ratio of gold to credit must be sharply increased as more credit is required. This would require many countries to restrict international trade still further, but the Swiss argument runs that trade which is based solely on credit must soon come to an end in any case. The gold requirement would force the countries concerned to bring demand into line with capacity to pay, and international trade, although on a lower level, would not be as subject to crisis, and the need for emergency action which has so far characterized EPU.

Revision along this line would probably be sufficient to persuade the Swiss Parliament to approve a new credit for EPU. It should be pointed out that the Swiss are getting a bargain here, because the actual credit requirements for Swiss participation in EPU are much smaller than the credit required to support their system of bilateral clearing agreements.

The Swiss Parliament may also raise the point of neutrality, i.e., the possibility that Swiss credits to EPU are being used to finance Western European rearmament. This theoretical possibility has an air of unreality about it, but could become a sticking point. The Swiss officials concerned will try, therefore, to get an amendment which would prevent use of EPU credits to finance shipments of a short list of arms and munitions.

The Swiss Government is fully aware that it cannot return to a system of bilateral agreements, in which the most important of the trading partners are already bound multilaterally to observe regulations which do not allow the kind of bargaining necessary to bilaterals.

The Swiss, however, are skilful at avoiding drastic measures, and negotiating partial solutions more beneficial to themselves than would seem possible in the circumstances. Their relative success in bargaining with Eastern countries is a case in point. They may, therefore, be able to obtain additional compensation from Germany after the conclusion of the Debt Conference.

One of the areas in which they may be expected to exert pressure is in Eastern Germany. The writer has not seen any indication of the effect of a bilateral settlement of such a claim on a country's position under the London Debt Conference settlement.

III. The Washington Accord. Moreover, the weapon of the Washington Accord would appear to have a number of advantages, from the Swiss point of view. They are undoubtedly aware that both the British and

French are willing to make some concessions in return for prompt cash payment of their share of the Accord. The Swiss are also aware that the German advantage lies in getting possession, as quickly as possible, of the German investment in Switzerland, the only foreign investment left them and a windfall that they could not have expected. The long resistance of the Swiss to the Accord has thus benefited the Germans, and the Swiss are not likely to let them forget it.

These bargaining advantages are limited, of course, and cannot be pressed too far. Moreover, with respect to the other partner, the United States, there are definite disadvantages to the use of the Accord in this way. The personal element in this equation is a large factor, since Minister Stucki's reputation is identified with the Accord. As an estimate, Stucki is perfectly capable of delaying a solution of the Accord as long as need be to get some settlement of the "clearing billion". He must have in mind a figure larger than SF 121 millions, since he undoubtedly knew he could have got that from the Germans under the Accord, although the Germans are understood to have offered only SF 60 millions. He may have in mind something around SF 350-400 millions, that is, the SF 121 millions plus the SF 250 millions which the Swiss Government transferred as German looted gold. This would appear to square accounts on the Accord completely, from Stucki's point of view. The final figure, when it appears, may be somewhat larger, but the Swiss can hardly be taken seriously if they demand the entire SF 1.2 billions.

The question of how much the Germans can afford to put up out of the German Government's share of a Washington Accord settlement can yield a startling variety of answers. The German offer to the Swiss of SF 60 million is certainly the minimum figure. All calculations which the writer has seen were based on the 1946 census of German assets, which were then valued at SF 420 millions, approximately. This figure does not include any appreciation in value, which must have occurred in some cases in the last seven years. The index of German bonds quoted in Switzerland may be cited in this connection. This index, which stood at about 18 at end of December 1946, had approximately doubled by June 1951 when it stood at 36.6. Most of this increase occurred in 1949. From June 1951 to end January 1952 the index increased about 56 percent, to 57.3. Moreover, the Legation understands that the Swiss banks are being required by the Swiss Compensation Office to pay interest on all blocked accounts. The various deductions which must be made from the total also vary considerably. It is understood that about SF 36 millions of these assets have been unidentified as to ownership. In that case, some part, say half for this calculation, would be liquidated and turned over intact to the German Government, VI-2/

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which would then have only to pay off in German currency, and only if a claimant appears. The total of individual assets under SF 10,000, which are not subject to liquidation, has also been fixed at greater or lesser sums, the latest which the writer has seen being about SF 29 millions. This does not exhaust the possibilities, but does serve to indicate that the German Government may be able to acquire as much as SF 100 millions, possibly more, in Swiss francs as a result of the Accord settlement.

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Enclosures:

1. Swiss Bank Corp. Bulletin No.30
2. Article from Gazette de Lausanne
3. Article from Atlas
4. Article from BIS Press Review No.38
5. Article from BIS Press Review No. 40
6. Article from BIS Press Review No. 41

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