SWITZERLAND

RELATIONS OF THE UNITED STATES WITH SWITZERLAND

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Policy Statement Prepared in the Department of State[1]

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SWITZERLAND

A. OBJECTIVES

Despite its tenacious attachment to neutrality, Switzerland has a number of valuable attributes in terms of major United States foreign policy aims. The Swiss Confederation is an important factor in European economic recovery and a positive force in the maintenance of free democratic institutions in Europe. While traditional neutrality precludes their political or military alignment with the west, the Swiss can nevertheless be relied upon to defend their territory resolutely against any aggressor. As such Switzerland constitutes a deterrent to the expansion of Soviet influence in western Europe and a strategic asset, even though a passive one, within the frame of United States objectives.

The primary aims of United States policy toward Switzerland, apart from the axiomatic one of strengthening existing friendly relations, are therefore to encourage increased Swiss cooperation, in particular economic, with the western democratic nations and to enable Switzerland to maintain as strong a position of military neutrality as possible.

B. POLICIES

Political. Neutrality is so deeply rooted in Swiss tradition and so much an article of national faith that any direct attempt on the part of the United States to modify it would generate a hostile reaction and work contrary to our best interests. On the other hand, although neutrality prevented Switzerland from joining the United Nations and from participating in the political and military reorganization of western Europe and of the Atlantic community, there is no question but that the aims of the free nations of the west receive the unqualified moral support of the Swiss people. Their national policy of neutrality in no way implies "moral" neutrality, or indifference to the outcome of the struggle of the west against Soviet communism. The temper of Swiss official and public opinion, indeed, is uncompromisingly anti-communist. Under the circumstances, the United States will endeavor appropriately to convince the Swiss that this struggle is as much a moral one as it is political or military, and that fuller partnership with the western powers is in accord with Switzerland's primordial interest in surviving as a free, democratic nation.

Switzerland's political stability is firmly anchored in an inherent conservativism which abhors extremes of any kind. Since the national elections of October 1947, the political trend, as expressed in various cantonal and municipal elections, has been toward the Right and Center. The main electoral victor has been the moderate, middle-class Radical Democratic Party which currently holds the largest number of seats in the National Council. The Social-Democrats, on the whole, have maintained their strength, although the position of their lone representative on the Federal Council has become increasingly difficult. The Swiss Communist "Labor Party", never more than a minority group, has lost ground consistently and heavily in every local election since the Prague coup of 1948, and has progressively alienated public opinion by its servile adherence to the Moscow line. Its future political prospects are extremely poor, and the Party accordingly is concentrating on preserving a militant hard core and on consolidating its cells in industry.

Switzerland's position of self-elected detachment in the field of east-west tension is an uneasy one. As the Swiss Foreign Minister has described it: "In times like the present when there is neither peace nor war, participation or abstention alike may be judged equally hostile manifiestations." Switzerland has consequently adopted a policy of strict non-intervention in what it terms "the political antagonism of the Great Powers." This cautiousness was an important factor in Switzerland's unwillingness to join the political organs of the United Nations where the Swiss feared they would merely expose themselves to the political disadvantage of having to take sides without securing any corresponding advantages.

The Swiss have taken a similarly reserved and skeptical attitude toward the various plans for Europeon union. While they have followed the developments in this field with sympathetic, if somewhat academic interest, and have welcomed the creation of the Council of Europe especially for the possible contribution it may make toward

[1] Policy statements on various countries were prepared in the Department of State periodically and updated every year or two. The previous study on Switzerland was dated March 15, 1949, but all copies were apparently destroyed upon receipt of this revision. Copies of the source text were sent to 13 Western European posts and to Moscow during September and October.

integrating Germany in the European framework, their basic reaction toward all such programs has been that Switzerland would be most ill-advised to abandon the relative security of its self-reliant neutrality except for some unmistakably superior arrangement.

The role of the International Committee of the Red Cross (ICRC) is closely related to Swiss neutrality. As the Swiss frequently point out, neutrality enables the ICRC to function effectively, while Switzerland in turn is strengthened in its resolve to remain neutral in order that such indispensable services to humanity in time of war may be rendered. The importance which the Swiss attach to the ICRC was well illustrated by their official sponsorship of the international diplomatic conference which met at Geneva last year to adopt the convention for the protection of civilian war victims. The Swiss Foreign Minister was chairman of this conference, and the Confederation contributed some $200,000 toward financing it.

A second important adjunct of Swiss neutrality is the activity of protecting power for the foreign interests of belligerents, a function which the Swiss carried out extensively during World War II for the benefit of numerous countries, the United States included. The Swiss are once more performing this useful function for the United States in Bulgaria since the break in our diplomatic relations with the satellite in February 1950.[2]

Switzerland's economic contribution to European recovery, begun before the Marshall Plan was inaugurated, has been substantial. Since the end of the war the Swiss Government has extended over $187,000,000 in credits to other ERP countries. Additional private credits from Swiss banks come to approximately an equal amount. Coupled with purely caritative gifts for international relief and welfare, Switzerland's aggregate contribution to European relief and rehabilitation amounts to half a billion dollars, a significant sum for a small country whose total yearly national income is less than 4 billion dollars.

Quite apart from its material contribution, the continued presence in Europe of a country of Switzerland's stability and well-being has a moral and psychological effect which it is difficult to assess in concrete terms but which nonetheless should not be underestimated. In many ways the Swiss Confederation represents in economic terms what the United States is trying to achieve through the ECA in other countries.

Strategic. We have accepted the fact that Switzerland, because of its firm adherence to neutrality, cannot be considered a potential member of any of the existing political and military alliance systems designed to strengthen western Europe and check Soviet expansionism. We have equally accepted the inadvisability of attempting to exert direct pressure on the Swiss to join in these organizations. On the other hand, as authoritative Swiss spokesmen have frequently made clear, Switzerland regards itself as belonging to the western community of nations. The Swiss are inherently hostile to Soviet communism; and they fear and distrust the Soviet Union, despite their desire to remain neutral. The Soviet bloc is generally recognized in Switzerland as the only possible aggressor, and it is doubtful that many Swiss leaders still seriously entertain the illusion that Switzerland will be able to remain neutral, except perhaps for a relatively brief period, in the event of an open conflict between the Soviet bloc and the west. In any case, there is no doubt whatever that the Swiss will offer determined resistance to an aggressor. While the forces of the western powers cannot count on active military cooperation from the Swiss in advance of an attack on Switzerland itself, the degree of Swiss resistance nonetheless constitutes a positive, calculable factor in western strategic planning. It is therefore in the interest of the United States, insofar as its prior commitments to other directly allied countries will permit, to maintain and strengthen Switzerland's military potential through such means as allowing the Swiss commercial access to the US market for the purchase of war materials, and by continuing to accept Swiss officers for special training in US service schools.

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Cultural. In addition to the well-known kinship of democratic political institutions, a close cultural and social relationship exists between Switzerland and the United States. A substantial number of Swiss have emigrated to the United States and have become citizens, while tens of thousands of Americans have visited Switzerland if only, in the majority, as tourists. Commercial intercourse between the two countries is also lively; and the Swiss are strong admirers of American technical progress and industrial achievement. In both countries private societies exist which are actively engaged in fostering closer relations and understanding in cultural and business fields.

A small but eminently successful USIE program is conducted in Switzerland to intensify and broaden cultural and intellectual relations. Previously centered solely in Bern, this operation was expanded during 1949, in response to local request and on Smith-Mundt recommendation, with the opening of a USIE reading room in Zurich. This has fulfilled a particularly important need in making American books and other materials more readily accessible to the student bodies of the two leading universities located in that city. Although Switzerland does not participate in the Fulbright Program, USIE Bern acts as a

[2] Documentation on the United States break in diplomatic relations with Bulgaria is scheduled for publication in volume IV.

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clearing house for numerous students traveling to and from the United States.

No great expansion of our services in Switzerland is contemplated. We will continue along the present lines without attempting to disseminate propaganda themes and bearing in mind, not only the neutral sensitivity but the fundamental conservatism of the Swiss people to whom anything which smacks of overt propaganda is distasteful and likely to be resented.

Economic. Swiss neutrality has a significant corollary, the policy of "solidarity"—that is, recognition of the "inter-dependence" of the countries of Europe and the resulting need for Switzerland to cooperate actively in the larger European effort to achieve economic viability and security. As the Swiss Foreign Minister has expressed it: "More than ever the fate of our country is linked to that of others". Switzerland is therefore vitally interested in the success of the European Recovery Program and is fully aware of the indispensable role played therein by the United States. We, in turn, regard the Swiss Confederation, with its well-developed industries and strong financial position, as a country which has made, and can continue to make, important contributions to this program. Although Switzerland itself receives no ECA aid and needs none, and hence did not sign a Bilateral Agreement with the United States, it is an active member of the OEEC and takes a constructive part in the work of that organization.

Switzerland's attitude toward the ERP, which at the outset was somewhat skeptical, has undergone a marked change for the better during the past year. The Swiss at first feared that the proposed expansion of European productive capacity would have unfavorable consequences for Switzerland's economy; but as the emphasis of the recovery program has gradually shifted from the achieved goal of increased production to breaking down restrictions of all types to intra-European trade, the Swiss have found ERP aims to be very similar to their own economic policy goals: free convertibility of currencies, low tariffs, and—with certain distinct reservations—reduction of quantitative restrictions and multilateral trade. Moreover, ECA's decision last autumn to permit off-shore purchases in Switzerland under certain conditions went a long way toward allaying earlier Swiss fears and engendering positive support of ERP objectives.

While Switzerland has not joined in the current Intra-European Payments Plan, the Swiss have reacted favorably toward the proposed new European Payments Union, and are expected to become a member. It will be an aim of US foreign economic policy to encourage a type of Swiss participation in the EPU commensurate with Switzerland's position of financial strength.

Switzerland's financial position is strong. The 1950 budget is again balanced. Gold holdings of the National Bank have constantly increased since 1938, and on December 31, 1949 reached 6,240 million francs, the equivalent of a gold coverage of notes in circulation of 136.66% and a coverage of notes in circulation and sight obligations of 99.09%. The Swiss balance of payments thus appears to produce a surplus in spite of the traditionally adverse balance of trade. The Swiss capital market is characterized by extreme liquidity. Interest earning investments are scarce, and the pressure of funds seeking investments has forced a continuing decline in interest rates. Since it is unlikely that this pressure will be relieved by internal factors, interest in the export of capital has been revived, and under present circumstances Switzerland might even consider granting foreign loans and credit not tied exclusively to financing Swiss exports.

The deficits in the merchandise balance, which have been extraordinarily large in the postwar period, have shown a diminishing trend. In 1947, 67.8% of imports were covered by exports, but in 1949 it was 91.2%. Imports declined as deferred demand from the war years was satisfied and stocks were replenished, while exports improved slowly due to increased payments facilities abroad. Swiss exports remained at a satisfactory level during the first quarter of 1950, only 1.4% lower than during the comparable quarter of last year, thus indicating that on the whole Swiss export industries remained competitive in spite of the devaluation of foreign currencies in September 1949. The US retained its position as the leading supplier of the Swiss market, as well as being its chief export market. Swiss foreign trade during recent months has been sustained largely by its exports to two countries: the US and Germany, which increased by 7% and 130% respectively during the first quarter of 1950 as compared with a year ago. It can therefore be assumed that a decline in Swiss exports can probably be averted as long as there is no reversal in Swiss trade with the US and Germany.

When the Swiss originally joined the OEEC they made three reservations: (1) Participation in the Organization should not be incompatible with their neutrality; (2) Switzerland could not consider itself bound by decisions affecting its economy unless these were taken with its concurrence; (3) Switzerland could maintain its existing commercial agreements with European states not members of the OEEC and could conclude similar new agreements.

As long as Switzerland's bilateral trade agreements with the Eastern European satellites of the USSR do not discriminate against the economic interests of the ERP countries the US will not object to them.

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With respect to our security export control program over the movement of strategic materials to the Soviet bloc,[3] the Swiss, within the constitutional limits of their neutrality, are cooperating informally. While it cannot be said that they have instituted extensive controls over the export of strategic goods to eastern Europe, and more particularly their trans-shipment, the Swiss did, in March 1949, reinforce an existing decree to prohibit "in principle" the export or transit of all war materials and closely related items. As the program to control strategic exports to the Soviet bloc becomes increasingly an internal European concern, and not primarily external US policy, Swiss cooperation can be expected to grow. We will meanwhile intensify our efforts to obtain a greater degree of voluntary Swiss cooperation in this field, avoiding, as in the past, any direct intervention in Swiss affairs, but basing our approach on our common interest in not contributing to the war potential of aggressive nations. Simultaneously, in the interest of reducing the trans-shipment and diversion of goods, we will increase our scrutiny of all applications from domestic exporters involving commodities destined for Switzerland.

Until the Swiss decide to accede to the General Agreement on Tariffs and Trade, or subscribe to the Charter of the International Trade Organization, our commercial relations with them will continue to be based on those articles of the Treaty of Commerce of 1850 which still remain in force, and on the Trade Agreement of 1936. While the Swiss signed the Final Act of the Havana ITO Conference, Switzerland has not accepted subsequent invitations to become a party to the GATT. Although the Swiss position with respect to the Charter and the GATT has been examined on several occasions since that time by the US, in conjunction with other contracting parties to the GATT, the Swiss have maintained their original reservations to the effect that certain provisions of the GATT and parallel provisions of the ITO—particularly those prohibiting quantitative restrictions in general, except for countries in balance of payments difficulties—did not meet Switzerland's special needs. No solution has yet been found which satisfies the Swiss and does not simultaneously open dangerous loopholes in the GATT. We will nevertheless continue to encourage reconsideration by the Swiss Government of its position with regard to this instrument.

The Executive Branch of the US Government is generally committed to Congress to have all trade agreements contain an "escape clause" provision, and this commitment involved specific reference to the absence of such a provision in the 1936 Trade Agreement with Switzerland. We shall therefore pursue our effort to obtain amendment of this agreement to include an "escape clause." Our policy in this respect is also influenced by the increasing claims of the American jeweled watch industry that it is threatened with serious injury as a result of tariff concessions on the import of Swiss watch movements granted under the Swiss trade agreement. Should Switzerland refuse to accept an escape clause, it may be necessary for us to consider termination of the entire agreement. In anticipation of this possibility, we are giving Switzerland formal notice of our intention to terminate the agreement subject to withdrawal of the termination notice if agreement is reached on the escape clause issue. The economic and political impact of such a step, particularly upon US exports to Switzerland, but also upon the Swiss watch exporting industry which occupies a vital place in the Swiss economy, will however be weighed carefully.

[3] Documentation on the U.S. attitude toward East-West trade is scheduled for publication in volume IV.

The problem of liquidating German external assets in Switzerland has been pending since May 1946 when the Swiss-Allied Accord was originally signed in Washington.[4] It has since caused difficulties in our relations with Switzerland disproportionate to the intrinsic importance of the matter. This prolonged and unsatisfactory state of affairs has resulted from the inability of the Swiss Government on the one hand, and of France, Great Britain and the United States on the other, to reach agreement on a number of problems which the Swiss feel prevent their implementing the Accord by proceeding with the liquidation of German enemy assets in Switzerland. The more important of these problems are: (1) providing compensation in Germany to German owners concurrently with the liquidation of their assets in Switzerland; (2) provision for the liquidation of assets in Switzerland belonging to Germans not resident in the territory of the Federal Republic; and (3) the disposition of assets in Switzerland which involve intercustodial conflicts. The United States favors an intensified effort to reach a speedy solution to this question, due account being taken of our obligations to the Inter-Allied Reparations Agency countries, in particular through the convening of a Four-Power Conference to settle finally all outstanding issues.

A "Memorandum of Understanding" on conflicting US-Swiss claims to German enemy assets in the United States, the so-called intercustodial problem, was agreed to at Washington in July 1949. This instrument is provisional and still has to be finally signed. US authority to do so depends upon the enactment of legislation now before the Congress empowering the Government to sign such agreements. Cer-

[4] For the text of this Accord, see Treaties and Other International Acts Series No. 5058; for documentation relating to its negotiation, see *Foreign Relations*, 1946, vol. v, pp. 202 ff. Further documentation on this subject for subsequent years is in file 800.515.

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tain differences regarding the content of the understanding also remain to be reconciled.

The general attitude of the Swiss Government toward the Swiss-Allied Accord is undoubtedly influenced by the possibility of Germany once more becoming a powerful neighbor with whom Switzerland wishes to be on amicable terms. Should the Swiss continue to delay satisfactory implementation, we may find it necessary, alone or in conjunction with France and the UK, to report the failure of the Accord to the IARA, and to announce withdrawal from trusteeship functions for that body in regard to the German assets question in Switzerland.

A significant modification of Swiss foreign financial arrangements took place in the autumn of 1949. Up to that time practically all payments between Switzerland and other countries were controlled, either within the framework of bilateral agreements or through Swiss National Bank regulations. Following the devaluations of various European currencies in September 1949 the Swiss franc lost all premium, which had existed from the end of the war, over the dollar in the free market. On September 26 dollar area payments were freed of all controls thus substituting a unitary dollar-Swiss franc exchange rate, which is flexible and determined by market forces within defined limits (i.e., 4.13 to 4.68 francs per US dollar), for the previous dual rate and restrictive regulations which we regarded as undesirable. The rate has since remained fairly stable at about 4.30 francs per US dollar. On November 13, payments between Belgium–Luxembourg and Switzerland became free. When it is recalled that the 41 countries and dependencies involved accounted for some 38% of the total value of Swiss foreign trade in 1949, the magnitude of this step toward the liberalization of payments can be fully appreciated. Of the 77 odd countries with which Switzerland trades, payments are now free in the case of 41, decentralized for 23 and operated through clearings in 13 instances.

As a hard currency country whose existence depends upon a flow of trade, Switzerland has resorted to bilateral payments agreements since the end of the war, not so much from choice as from considerations of defense against restrictive measures taken by other countries. Switzerland itself places no quantitative limitations on the import of non-essential goods.

C. RELATIONS WITH OTHER STATES

The United Nations. Switzerland has never applied for membership in the United Nations because of the unlikelihood that this organization would grant the Swiss the special neutral dispensation they obtained from the League of Nations in 1920 and which they consider even more indispensable today. However, this has not prevented the

Swiss from joining and participating actively in the non-political work of the great majority of the UN's specialized agencies: FAO, ILO, ITU, ICAO, WHO, IRO, UNESCO, the UN Narcotics Commission, the World Meteorological Organization and the Universal Postal Union, whose newly elected director is a Swiss national. The Swiss have also acceded to the statute of the International Court of Justice, and have played an important consultative part in the technical work of the ECE. Since 1948 the Swiss Government has maintained a permanent official observer at the UN headquarters at Lake Success; and one of Switzerland's most distinguished agricultural authorities, Dr. F. T. Wahlen, now occupies a high post in the FAO.

Subject to certain limited neutral reservations, the Swiss Government welcomed the establishment of the United Nations European Headquarters at Geneva in 1947, and has since contributed in many ways to the success of the numerous conferences of UN agencies which are held there each year. It can therefore be said that the Swiss, short of applying for actual membership, have taken a good many important steps in the direction of association with the UN.

The Soviet Bloc. Relations between Switzerland, the Soviet Union and the eastern European satellites, while formally correct, tend to be cool and confined primarily to commercial matters. Ever since the communist *coup d'état* in Czechoslovakia of February 1948 the Swiss have retained few if any illusions regarding the essentially totalitarian character of the regimes in power in the "Popular Democracies" of eastern Europe.

Switzerland's relations with the Soviet Union in the political field have gone little beyond endeavoring to locate and repatriate missing Swiss nationals. The most recent (and second) Swiss Minister to Moscow resigned early in 1950 for "reasons of health" and has not yet been replaced.

Swiss-Soviet trade relations have not lived up to the expectations of the Treaty of Commerce concluded between the two countries early in 1948. In practice trade has remained limited, and in fact declined, owing to the inability of the USSR to supply raw materials which the Swiss need and the consequent Swiss reluctance to ship manufactured goods to Russia. [The value of trade both ways in 1949 dropped substantially below the 1948 level. For 1949 the value of Swiss imports from the USSR was $2,691,000; in 1948 it had been $4,899,000, or almost twice that amount. The value of exports from Switzerland to the Soviet Union also decreased from $7,567,000 in 1948 to $5,566,000 in 1949.] [6]

[6] Brackets in the source text.

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Switzerland's trade relations with eastern Europe (exclusive of the USSR) have been overshadowed during the past three years by the pressing issue of obtaining indemnification for Swiss properties nationalized or confiscated in that area. Trade with the five remaining Soviet satellites (Bulgaria, Rumania, Hungary, Czechoslovakia and Poland) declined in 1949 over 1948 with respect to both exports and imports.

A marked deterioration in relations between Switzerland and Rumania occurred in 1949 as a result of Swiss measures against Rumanian economic espionage activities in Switzerland. The Rumanian Government retaliated with repressive moves against Swiss citizens in Rumania and later obstructed a Swiss attempt to solve the conflict through arbitration. The Swiss have blocked Rumanian assets in Switzerland, and relations between the two countries remain strained.

In the spring of 1950 the Swiss Federal Council refused to receive a touring "Peace Partisans' "[6] delegation and intensified its program during 1949 for revision of the Swiss Penal Code by reinforcing the provisions "for the protection of the State" against subversive political activity. The Swiss police authorities have continued their policy of refusing entry visas to foreign communists intending to participate in public manifestations organized by the local communist party or communist front groups. On several occasions, they have also confiscated incoming issues of the Cominform journal.

In the course of 1949 the Swiss Government pursued its efforts to obtain compensation for Swiss property nationalized or confiscated in the Satellite countries. Two new agreements were concluded, one with Poland on June 25, 1949, involving a payment of $12,305,000 to the Confederation, and a second on December 22, 1949 with Czechoslovakia providing for total payment of $16,330,000 over a period of ten years. Similar Swiss negotiations are in progress with Hungary, Bulgaria and Rumania, but as yet have been fruitless.

In the labor field the Swiss Federation of Trade Unions (SFTU) voted by an overwhelming majority on June 18, 1949, to withdraw from the communist-dominated WFTU.[7] At the same time the SFTU reaffirmed its intention to cooperate with the ERP Trade Union Advisory Committee although it postponed decision with respect to joining the newly formed International Confederation of Free Trade Unions until the next general congress of the SFTU.

[6] Documentation on the activities of the Partisans for Peace is scheduled for publication in volume IV.

[7] Documentation relating to the activities of the World Federation of Trade Unions (WFTU) is scheduled for publication in *ibid.*

The United Kingdom and France. There have been no striking changes or developments during the past year in the normally friendly and economically active relations between Switzerland on the one hand, and the United Kingdom and France on the other. A new agreement was concluded with the UK on April 5, 1950 regulating payments between Switzerland and the Sterling area, as well as trade between Switzerland and Great Britain. This agreement contained a number of concessions with regard to the settlement of the traditional British balance of payments deficit. If the deficit increases due to the failure of the Swiss to import the expected amounts of goods, the British may reduce their tourist allotments and export contingents accordingly.

French-Swiss trade was liberalized toward the end of 1949 when France abolished import licenses for a number of Swiss products and granted additional quotas for many items still subject to quantitative restrictions.

Germany. The Swiss Government has taken a positive view of the formation of the German Federal Republic, and accepted the invitation to accredit a Swiss diplomatic mission to the Allied High Commissioners. The German Federal Republic is particularly desirous of establishing a consular office in Switzerland where there are still about 60,000 German nationals. HICOM has made it clear to the Germans that if such a consular office in Switzerland is approved, it is under no circumstances to mix in external assets negotiations or in any way interest itself in that issue.

Since the enactment of currency reform legislation by Military Government in Western Germany in the summer of 1948, the Swiss Government has made representations to the three Allied Governments and the Allied High Commission concerning provisions on the payment of German debts to United Nations nationals. With respect to the Swiss request that Swiss creditors be formally included under these provisions, the United States has taken the position that there is no basis for participation by countries which were neutral during the war in any general settlement of claims against Germany of nations which were at war with the Third Reich, and that consequently there is no occasion for including Swiss creditors under the indicated provisions of the currency reform laws.

Switzerland concluded a significant trade agreement with the Western German Government in August 1949, the most notable feature of which was the absence of any of the specific commodity lists normally used to limit the amounts of Swiss "non-essential" goods acceptable. A ceiling of total imports from Switzerland was set at $4,800,000 per month, the actual pattern of trade being left to normal demand forces. This agreement resulted in a spectacular increase in Swiss exports to Western Germany during late 1949 and early 1950, a development

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which may presage a decline in trade with the US and a return to the prewar eminence of Germany as Switzerland's trading partner.

Swiss trade with eastern Germany is at a low level, both in comparison with total trade and with trade between Switzerland and western Germany, and is declining. Swiss imports from the Soviet zone in 1949 amounted to roughly $3,500,000 and exports to some $1,600,000. The share of eastern Germany in Swiss foreign trade during 1949 amounted to approximately only 0.3 of the total. It is conducted on a month-to-month basis since no new trade and payments agreement has yet been concluded to replace the one which expired at the end of 1949.

We have received Swiss assurance that they have no intention of taking action which would represent *de facto* recognition of the Soviet-sponsored government of eastern Germany.

D. POLICY EVALUATION

The aims of US policy toward Switzerland are realized not only directly in terms of specific US-Swiss relations but also indirectly, and to an even greater extent, in terms of Switzerland's relationship to western Europe as a whole. Only one major unresolved US policy issue with respect to Switzerland, the amendment of the 1936 Trade Agreement to include an "escape clause", is primarily bilateral, and even this question is conditioned by the ultimate multilateral objective of inducing Switzerland to accede to the General Agreement on Tariffs and Trade. All of the other outstanding issues—the final settlement of the Swiss-Allied Accord on German external assets, increased control over the movement of strategic goods from Switzerland to eastern Europe, and a fuller measure of Swiss participation in ERP, particularly through the European Payments Union—depend largely on US action in concert with other countries. The Swiss, as a general rule, are more prone to act in accordance with the aims of their fellow Europeans than in response to the policies of an extra-European power. In the last analysis, the attitude of Switzerland toward US foreign policy in Europe will be governed by the effectiveness of that policy in achieving its main objective of strengthening western Europe; and the greater its success in this respect, the more positive the support it can be expected to receive in Switzerland.

The Swiss recognize that US efforts to rehabilitate the economy of western Europe are consonant with their own national interests. Similarly, the recognition of a common democratic ideology leads the Swiss, within the limits of their neutrality, to favor US policies designed to check Soviet expansionism in Europe. At the same time, the Swiss are fearful lest the form of the military reorganization of the west, without as yet very much actual content, may provoke Soviet

aggressiveness. The Swiss are not optimistic in their judgment of the current progress in strengthening western Europe. They believe that the prospects for peace are decreasing and that it is definitely not possible to rule out the danger of an armed conflict. This outlook reinforces their conviction that the only realistic course open to Switzerland at present lies in a policy of ever more vigilant neutrality combined with increased economic and military preparedness.

Neutral Switzerland, nevertheless, remains an area of comparative strength in relation to the rest of western Europe and it is in the best interest of US foreign policy to preserve it is such.

RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES AND SWITZERLAND AMENDING THE AGREEMENT OF JANUARY 9, 1936

[For text of Agreement effected by exchange of notes signed at Bern October 13, 1950, which entered into force on the same day, see *United States Treaties and Other International Agreements* (UST), volume 2 (pt. 1), page 453.]

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