

June 17, 1967

**Attachment, 'Information about Czechoslovak
economic relations with the United Arab Republic
and the Syrian Arab Republic'**

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Summary:

Czechoslovakia anticipates decreased trade with the United Arab Republic and Syrian Arab Republic as they suffer negative financial repercussions from their defeat in the Six-Day War.

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[Attachment] IV/d

Information about Czechoslovak economic relations with the United Arab Republic and the Syrian Arab Republic

1. United Arab Republic

As far as the area of economic relations with the United Arab Republic is concerned, we build upon this short evaluation of the situation arisen in the field of mutual trade relations and we are drawing the following preliminary conclusions:

a) The United Arab Republic will be forced to put through an as austere import policy as possible. The trade relationships with the Czech Republic will go on, yet the volume might decrease slightly. Probably, our export structure will change and in the previous years, export has been focusing by 70-75 % on deliveries of investment units and machinery. The United Arab Republic's economic situation is going to force the Egyptian government to look in its exports at a larger extent for clearing countries as its options of buying in capitalist countries are limited due to a desperate lack of convertible currencies. On the other hand, the United Arab Republic is probably going to decrease its imports into free currency countries which may have an impact on our cotton imports.

b) As far as investment policy is concerned, significant changes can be expected since the United Arab Republic government is not only going to try to postpone already contracted investment units but we cannot clearly exclude that it will stop the construction of already partially constructed objects. Czech export would drop down in both cases and creating available resources for the considered purchases of cotton and several other Egyptian products which included also crude oil during the latter years would be limited. The negotiations about the delivery of the Ismailie steam power plant for approximately 340. Mio. Czech koruna trade parity 1967 serve as a good example. Prior to the war incidents, the United Arab Republic requested the cancellation of this delivery, or possibly, its further postponement, yet the Czech party demanded that the Egyptian Partner fulfill the contract as agreed upon and the Egyptian party finally agreed, but now it's necessary to count that this trade might be canceled taking into consideration the current situation. The equipment hitherto produced for the Ismailia power plant can be allegedly used for other deliveries following certain adaptations although at a significant financial expense and thus it will probably become necessary to cancel this contract in case the United Arab Republic remains categorically strict - nevertheless until another decision regarding the compensation of damages will have been taken, the Egyptian party needs to count with the fact that the actually incurred loss will be covered by the Egyptian party.

c) On the other hand, it needs to be expected that the Egyptian party is going to require raw materials, food and semi-products as well as spare parts for the hitherto already delivered machinery. This intention manifested itself already in 1966. In the past, the Czechoslovak Socialist Republic delivered, according to the options it had, a smaller amount of raw materials as well as semi-products to the United Arab Republic.

It would be possible under certain circumstances to increase the export of Czechoslovak war material, timber, paper and possibly sugar to the United Arab Republic which in turn would mean shifting from the sphere of free currencies, and thus Czechoslovak imports from this area.

d) In the past, the Czechoslovak Socialist republic provided a long-term credit equaling a total of 940 Mio. Czechoslovak Koruna. This amount was used through 500 Mio. Czechoslovak Koruna contracts. Due to restrictions of investment activities within the United Arab Republic, the overall amount provided by the credit hadn't been used. Thus, even given the new situation the credit provided may be regarded as a sufficient economic help for the United Arab Republic.

e) It would be possible to offer the Egyptian party to prolong the period for drawing the credit in order demonstrate that one understands the newly occurred situation - in case of the first economic agreement, the period has already been extended until June 30, 1968. In the case of the second economic agreement, this period ends on June 30, 1967. Taking into consideration that there is still a sufficiently large amount

left to be used, we recommend in the case of both agreements to prolong the contract validity period until June 30, 1969. Thus, the Egyptian party will be offered an option of using the hitherto not consumed part of the credit.

f) It may also be expected that the Egyptian party is going to express a claim to extend the credit period offered in connection to the agreements, where the length has hitherto been 7-12 years depending upon the investment unit.

g) The Egyptian party is probably once again going to ask to postpone the upcoming instalments for the long-term credits due in 1967 and later. The Czechoslovak Socialist Republic already offered the United Arab Republic to postpone instalments in the amount of 192.2 Mio. Czechoslovak Koruna for special character supplies. The postponed instalment is to be paid in three equal instalments during 1970-1972.

Both prolonging the credit period and postponing the instalments would influence our ability to provide for the necessary imports from the United Arab Republic and from other countries. Currently, the clearing account is settled. Thus, we do neither recommend to postpone instalments further nor to prolong the period of the credits offered.

II. Syrian Arab Republic

We presume that following the termination of military operations in the Middle East, the Czechoslovak-Syrian economic relations to run in a virtually usual way.

Yet from our side, it will become necessary to count with the following measures:

a) Especially now, as the relations with Great Britain and the USA have been interrupted, Syrian demand is focused on essential goods, such as raw materials, necessities for the current industry, equipment serving the defense of the country, food, medicine.

It is obvious that in this sense, our funds are limited and a possible transfer might worsen our own exchange rate situation.

b) The expected decrease in income for the transit of crude oil through Syrian territory is going to worsen Syria's financial situation, especially as far as free currencies are concerned. It is necessary to expect an increased pressure on the clearing payment terms, or possibly even offering the advantage of postponed payments for deliveries listed under point a).

From our point of view, it is necessary to insist on free currency payments in the sense of the governmental resolution from 15.3.1967 no. 80/67 (results of the Syrian Head of Government Dr. Zuayyin's visit to the Czechoslovak Socialist Republic), in order to maintain a fluent and flexible exchange of goods as otherwise, the volume of unusable assets would rapidly rise.

c) We presume that this year, there will be a very good grain and white bee harvest and also a good cotton harvest is being expected which is decisive for Syria's economy. Taking into consideration point b) and acting in the interest of providing for the returns from the Czechoslovak claims and also in the sense of satisfying the Syrian wish to extend Czechoslovak import, it is necessary to prepare for Syrian goods imports to the Czechoslovak Socialist Republic, especially Syrian cotton (exceeding the hitherto purchased amount of 2,500 tons), press cake - ca. 10,000 tons, and it is necessary to consider the option of importing feed barley and other products, such as casings, leather, hard wheat and lentils.

d) Taking into consideration the Syrian economy's socialization process, the increased demand for experts in different national economy branches and sending trainees for practice to the Czechoslovak Socialist Republic prevails. In cooperation with the respective Ministries, it is necessary to provide for the hitherto demanded cases of scientific-technical cooperation, namely in the sphere of public administration, i.e. an internship lasting several months for a group of Syrian specialists.

e) If a free-of-charge aid would be discussed, we recommend that, taking into consideration the current situation, the option of medicine supply and medical equipment be considered, as Syria suffers from a shortage in this branch (a vast program for the construction of hospitals and medical facilities is being planned), or possibly carry out some acts within the VTS administration, esp. sending Czechoslovak experts in order to process a study on Syrian industrialization, payments for air tickets for trainees from the sphere of planning and internal

administration, sending medical personnel.

f) It will be necessary to find out by asking the Syrian party whether the worsening economic situation that deteriorates due to the war events will not make it necessary to limit investment programs, especially as far as the extension of the refinery and power plant in Homs is concerned, in order to be able to take measures for preventing significant losses in our manufacture that would otherwise occur due to the work being significantly in progress.