

The Swedish-Russian Trade Agreement

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Should it be possible to carry out to the full extent anticipated the Trade Agreement which was signed by Sweden and the Soviet Union in Moscow on October 7, 1946, it would result in the greatest exchange of goods that Sweden has ever entered into with the Soviet Union. The basic plan provides for Swedish exports to the amount of 1.5 billion Kronor over a period of six years against imports from the Soviet Union of only 500 million Kronor during the same period. The intention is to finance the Swedish export excess by a credit of one billion Kronor which the Soviet Union promises to pay back over a period of 21 years, that is to say, not later than 1968. For the Soviet Union the agreement is only a minor factor in her new five year plans, but for Sweden it covers both the greatest credit that she has ever granted any country and the reserving of approximately 10 to 12 per cent of her total exports for the Soviet Union. Since the intended shipments will be delivered mainly by a few industries, such as the electro-technical and the machine building industries, which in normal times delivered about 30 per cent of the Swedish total exports, this will mean that these key industries, which today are fully occupied, will be delivering up to 50 per cent of the exports to the Soviet Union.

The output of these industries is, however, very important for deliveries of other Swedish industries and at present many of the former are only working at half their capacity because of insufficient wire and steel supplies. As these industries play a great role in supplying the home as well as foreign markets, the entrepreneurs will in many cases be placed in a position where they have to decide who is going to take priority.

Up to now, Sweden's trade with the Soviet Union has been on a very small scale. Also the foreign trade of the Soviet Union has been on a very moderate scale. In 1938, for instance, total Russian imports amounted to only one half of the total imports of much smaller Sweden. The trade relations between the two countries have been regulated by the Trade Agreement of March 15, 1924, as well as by the "Trade and Payment Agreement" of September 7, 1940, and by the so-called Kuibishev Agreement of November 4, 1941. Sweden had already in the agreement of September 4, 1940, granted the Soviet Union a credit of 100 million Kronor, the interest rate being $4\frac{1}{2}$ per cent. Of this loan, 40 million Kronor were intended for the enlargement of Swedish factories making wheels and axles for railroad cars which were to be delivered to Russia. The outbreak of war between Russia and Germany in June, 1941 prevented the carrying out of most of this agreement until the opening up of transportation after the Finnish-Russian armistice in September, 1944. The articles which had

been produced and stored in Sweden to the amount of 40 million Kronor were then delivered to the Soviet Union. Of this 1940 loan, 18 million Kronor remain to be paid by the Soviet Union, and will be paid out of the new billion Kronor credit. In 1945 and during the first six months of 1946, the Soviet Union has placed contracts in Sweden for about 25 million Kronor, mainly for machinery while during the same time Sweden has imported furs, linen, hides and chrome ore worth about 37 million Kronor from Russia. About 16 million Kronor of the contracts placed by the Soviet Union have been on a credit which will also be paid out of the new billion Kronor credit.

These new agreements with the Soviet Union, which were signed on October 7, 1946, and which have been presented to the Swedish Parliament for approval, consist of an agreement about the delivery of goods and payment arrangements and also a credit agreement. The "Trade and Payment Agreement" is in the form of a protocol to the Trade Agreement of November 7, 1940, which runs until September 7, 1947, and has now been extended for five years. In case it should not be renounced within six months of its termination, it will be extended automatically for one year. The two parties have also agreed that they will try to increase the mutual exchange of goods over and above what has been agreed upon for the first delivery period of the agreement. For the first delivery period, which runs until December 31, 1947, imports and exports of 100 million Kronor are intended for each country. The list of Swedish exports to go to the Soviet Union is in the main as follows:

	<u>Million Kronor</u>
Ball bearings	10
Ball bearing pipes, ball bearing steel, etc.	8
Chemicals including tanning extracts	8
Quality steel	4.4
Steel wire	2
Optical and measuring instruments	2
Materials for making electric lamps	1.5
Spare parts for turbo-generators	1
Spare parts for automatic telephone stations	1
Fish and salted herring	20
Horses	12
Cattle	5
Other goods	20

In addition, there is on this list 3,900 tons of drill pipes, drill steel, etc. For these no value figures are given. Thus aside from the 37 million Kronor order for agricultural goods (fish and livestock), the agreement also covers some 40--45 million Kronor of high quality industrial goods and 20 million Kronor of goods not further specified. The industrial goods which are capital goods for investment purposes will be delivered within the framework of the billion Kronor credit agreement.

On the other hand, the Soviet Union is going to deliver goods for 100 million Kronor up to the end of 1947, but for these goods only figures for quantities are given. The price calculations have been carried out on the basis of the ruling "world market prices". This list is as follows:

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	<u>Tons</u>		<u>Tons</u>
Mineral oil products	100,000	Potash 40%	100,000
Lubrication oil	3,000	Salt	100,000
Cotton	5,000	Glauber salt	50,000
Waste cotton	500	Anthracite (carbon)	
Linen	300	for electrodes	6,000
Chrome ore	25,000	Gypsum	20,000
Manganese ore	15,000	Synthetic rubber	500
Scrap iron	25,000	Oak	cu. meters 10,000
Pig iron	10,000	Goat hides	skins 50,000
Sheet iron	10,000	Sheep skins	skins 300,000

In addition, there are small quantities of other raw materials on the list. In the case of the Russian deliveries, the question is partly of articles which are very valuable for the Swedish economy but which cannot to any greater degree help to reduce the present lack of goods. On the deliveries of coal, which had been hoped for, there is nothing in the agreement, and other goods such as oil products and cotton could have been imported from other countries without difficulty. The potash, Glauber salt, and salt, seem to have to come out of the Russian zone in Germany. The deliveries of 20,000 tons of iron are intended for the production of the machinery which is to be exported to Russia. And finally, the list of the Russian deliveries contains an item of approximately 20 million Kronor of unspecified goods.

The payments which the agreement foresees are intended to balance. The costs of trade missions and related expenditures are included among the payments. Furthermore, goods which have been imported from other countries and which have not been processed in Sweden or the Soviet Union can be delivered within the framework of the agreement. Aside from this re-export, consideration is given to the possibility of transit between the two countries, and is to be regulated by a confidential transit agreement. The transportation will be carried out by Swedish and Russian ships. The payments will be effected through a clearing account in Stockholm which will run in terms of Swedish Kronor. But both of the parties can at any time demand the transfer of the balance into American dollars, or into any other currency which may be agreed upon, as soon as the balance exceeds a half million Kronor. In order to facilitate the carrying out of the agreements, the Governments have taken on the responsibility "to carry out such measures within the limits of their power which will become necessary for the carrying out of the deliveries". At three month intervals, representatives of both of the Governments for the supervision of the execution of the agreement will meet and discuss suggestions for the elimination of disturbances which arise in the mutual balance of payments, in the case such disturbances should arise. There is a security clause which states that "in case it should not be possible to correct within a short time such unsatisfactory conditions in relation to deliveries and payments, both the Governments reserve the right to halt the deliveries of goods until these unsatisfactory conditions have been corrected". Finally, in the Trade Agreement there are detailed provisions about the creation and the functioning of a court of arbitration.

The credit agreement, which was signed at the same time as the trade agreement, grants a credit of 1 billion Kronor to the Soviet Government

which it intends to use in the first instance for payments for goods imported from Sweden within the next five years. This credit is to be drawn upon to the amount of at least 200 million Kronor and, at most, to the amount of 300 million Kronor annually. To this end, the commercial representative of the Soviet Union in Stockholm will issue periodically bonds in Swedish Kronor which become payable fifteen years after the date of issue. As the last deliveries in accordance with the credit agreement will take place six years hence, the date of the last payment will be some twenty-one years after the conclusion of the agreement. The bonds bear 3 per cent interest; however, no interest is paid for the first three years. Since the Swedish National Bank also grants the credit over an account on which no interest is paid and the balance of which need only be calculated quarterly, the effective interest amounts only to 2-3/8 per cent. This interest rate is thus only slightly more than one-half of the interest on the loan of 1940 and is considerably below the 3 per cent which the Swedish Government itself must pay on long term internal loans. Re-payment of the credit will take place by means of deliveries of goods to Sweden, in gold, or in freely convertible foreign exchange. In order to make the re-payment of the loan and the payment of interest possible, the Swedish Government has undertaken to allow the import of Soviet goods on the necessary scale irrespective of the existence of Swedish import restrictions.

To the agreement a plan is attached according to which the loan of 1 billion Kronor is going to be expended. In the following list are the eleven main categories of goods which will be delivered to the Soviet Union on credit, out of the sixteen categories of goods which are listed altogether:

	<u>Million Kronor</u>
1. Equipment for the mining of ore	200
2. Capital goods for the construction of houses and for the production of building materials	90
3. Various types of electrical equipment	47
4. Instruments for geological explorations	42.5
5. Equipment for the production of peat (when deliveries become possible)	25
6. Equipment for the Chemical industry	22.5
7. Equipment for Forestry work	17
8. Equipment for Laboratories	10
9. Printing equipment	10
10. Welding machines	5
11. Pumps	2.5

In addition, there are on this list, without the value being given, 300 steam locomotives, 50 freight motor schooners, 45 wooden trawlers, complete steam engine equipment for 250,000 KW, as well as water turbines, generators and electrical equipment for 265,000 KW. The total amount of these deliveries can be estimated at 870 million Kronor, of which amount about 350 million Kronor falls on the electro-technical industries, and the rest mainly on the machine building industry. Throughout, the agreement calls for high quality output of the specialized Swedish industries, products which are at the present in strong demand all over the world. It seems that during the first year of the agreement, a very small part of

these long-term orders can be filled, perhaps only to the amount of 20 to 30 million Kronor. It can, however, be expected that these deliveries will, during the years to follow, reach the maximum amount of 300 million Kronor annually. The deliveries of electrical equipment, equipment for ore production, building materials and ships would last until the sixth year of the credit agreement. It should be noted that the prices of the goods that are to be delivered are not determined by the agreement, but must in each case be set through negotiations of buyers and sellers. On the whole it will depend upon contracts between Swedish exporters and Russian purchasing organizations whether, and to what degree, these deliveries which the agreement foresees can be carried out.

It is estimated that, of this billion Kronor credit, 130 million Kronor will be used for other purposes than carrying out the deliveries of the goods which are foreseen in the agreement. An amount, which is not specified, is to be used in payment of freight, insurance, installations, and for deliveries of goods which are not further revealed. The orders that were placed by the Soviet Union in Sweden before June 1, 1946, to the amount of 16 million Kronor, and the amortization of the Swedish credit of 1940, to the amount of 18 million Kronor, are, furthermore, to be paid out of the new loan. Finally, old Swedish claims to the amount of 18.7 million Kronor are also to be paid. These include Swedish investments in the three Baltic States which originally amounted to approximately 100 million Kronor, of which the Soviet Government had in May 1941 promised to pay 19.5 million Kronor. As a result of the outbreak of the Russian-German war, this agreement was suspended after the first of the eight quarterly payments of 2.4 million Kronor each had been made. The Soviet Union now agrees to pay 50% of the remaining 17.1 million Kronor, that is to say 8.56 million Kronor. The result is similar in the case of the Swedish claims resulting from the construction of the Kegums Power Station at Riga in Latvia (regarding which old Swiss claims exist). In May 1941, it had become necessary to reduce them, and the Soviet Government has now agreed to pay half of the outstanding amount or 7.25 million Kronor. These agreements on the Baltic claims, the details of which have not been made public, foresee a payment which can be estimated at 16 per cent of the original claims, and this small amount is to be paid out of this 15 year billion Kronor credit which runs with an extremely low interest rate. The second item in the old Swedish claims amounts to only 2.9 million Kronor, in the form of a compensation payment (after certain Russian counter claims have been deducted) for Swedish export goods which were lost in transit through the Soviet Union after the outbreak of the Russian-German war. In order that the holders of the Swedish Baltic claims should at least receive the compensation which had been promised in May 1941, the Swedish Government will, according to the new agreement with the Soviet Government, pay the difference out of Swedish funds.

The new agreements with the Soviet Union have in general been received unfavorably by the Swedish public, except by the Communists and the Social Democratic government party. The opposition, which is led both in the parliament and in the press by specialists in economic problems and in business, is very determined, and is in the first instance levelled against Social Democratic Minister of Commerce Myrdal. He is considered to be the driving power behind the agreement. He holds very pessimistic views concerning the duration of the present inflationary boom in the United States and the rest of the world, and sets his hope on the Russian

economy which according to his views is more or less "free of business fluctuations". It seems that he overlooks the fact that in the last few decades the Soviet Union has also experienced great fluctuations in business, and that her policy is aimed at making her economy independent of the economic conditions abroad, to the degree that she develops her own economic resources. Swedish industry welcomes the improvement in trade relations with the East, which hitherto have been very unsatisfactory, but with the qualification that it desires only exports of the usual export products, and only to the degree that existing production facilities permit. But here the agreement between industry and Government ends. The critics of the agreement consider as incorrect the view that exports to Russia would be a cushion against the drop in the Western export markets. And even if this would possibly be the case, the effects of the agreement on Sweden would still be very unfavorable. Because of the heavy load which the exporting industries are now carrying, the execution of the intended deliveries will mean that internal consumption will have to be restricted and important permanent export markets must be disregarded. In spite of the great labor shortages and lack of raw materials, some 20,000 laborers and great quantities of raw materials must be provided for these industries, in order to enable them to fulfill the orders of the Soviet Union. In order to fight the inflation danger, the government demands that investment activity be limited. But now the electrical and machine building industries must increase their capacity in order to deliver to the Russians. The competition for labor and materials will become keener. To the 2.9 billion Kronor credit, which has already been granted abroad by the government since the end of the war, will now be added another billion to the Soviet Government, adding new force to the inflationary tendencies. The question is raised as to what the value of the Swedish Kronor will be 21 years hence, when the last re-payment on the loan will be effected. It has not yet been possible to come to an agreement with the Soviet Government about the delivery conditions and, furthermore, about the force majeure clause for the individual contracts. There are particularly important arguments brought forth by the critics. Without these, they say, it will not be possible to conclude the contracts between the Soviet Government and the producers. It has been stated that the Russian interest in such a compact has shown a marked cooling since the conclusion of the agreement, which the critics claim was signed in too great haste.

It is claimed that the agreement is based on political motives. Only this could, for instance, explain the fact that the Social Democratic Minister of Finance intimated to the Russians a credit of 1 billion Kronor even before the beginning of the negotiations. The agreement in any case means politically a closer approach to the East, and is on the other hand a source of irritation for the United States, which works for a recovery of world trade on the basis of multilateral agreements and which watches the Russian economic penetration in Europe with concern. The business world is generally afraid of tying a considerable part of the Swedish export industry to the Soviet Union, which might lead the Minister of Commerce to new experiments in economic planning. The Minister of Commerce has in recent debate in the Parliament declared, in view of fears that the industries may be compelled to carry out the agreement, that he has not used any undue pressure in this respect, and that he promises that he will not do so in the future. He has also said that the agreement is "less a moral obligation for the Government than for industry" as the Government

has made its promises of exports only after consultation with the interested business circles. Against this, the business men stressed that they have, of course, from the very beginning made the reservation that the necessary condition would be that sufficient labor and raw materials were available, and, in addition, now comes the unsettled question of delivery conditions and the force majeure clause. Even if the export industry is determined to use all its power in order to carry out the agreement under these conditions, it appears quite uncertain under the present situation whether the agreements can be carried out to the full extent intended. On this point, only the future can decide, but it is already clear today that the agreements contain great risks, and it is too early to state how they will work out.