POLITICS

Czech-Slovak Relations Deteriorate

Jiri Pehe

Czech-Slovak relations have soured since the split of Czechoslovakia on 1 January 1993 and especially since the two countries introduced their own currencies at the beginning of February. Bilateral trade has virtually collapsed, and the two countries have been engaged in a bitter dispute over the division of some of the former Czechoslovakia's assets. In an attempt to force the payment of what it claims are Slovakia's debts to the Czech Republic, the Czech government has threatened to seize shares that Slovak investors purchased in Czech companies under the voucher privatization scheme in 1992. Although some progress has been made toward resolving some of the outstanding issues related to federal assets, it is becoming increasingly clear that the "velvet" Czech-Slovak divorce may be followed by a period of acrimonious relations.

Since the smooth split of the Czechoslovak federation on 1 January 1993, relations between the Czech and Slovak Republics have deteriorated. In response to the worsening economic situation in Slovakia, on 8 February the two republics canceled the treaty on maintaining the Czechoslovak koruna as their common currency and introduced their own national currencies. Since the currency separation Czech-Slovak trade has plummeted, and the two countries have repeatedly accused each other of stalling on the issue of dividing assets of the former Czechoslovakia that were not divided before the breakup of the country. In March the Czech government announced that it would seize those shares that Slovaks had purchased in Czech companies under the voucher privatization scheme in 1992, unless Slovakia agreed to pay what the Czech government claimed were Slovakia's debts to the Czech Republic. At the beginning of April, several minor agreements on the division of federal assets were signed, following a visit by Slovak President Michal Kovac to the Czech Republic. However, the most important disputes over assets remain unresolved.

Dividing Federal Assets

Prior to the split of Czechoslovakia, the Czech and Slovak governments had concluded twenty-six interstate treaties and a number of intergovernment agreements defining relations between the two republics after the breakup of the federation. Some of these agreements and treaties dealt with the question of dividing federal assets; for example, one agreement tackled the division of the Czechoslovak Army's assets. However, some aspects of this question remained unresolved prior to the split, the most important of which was dividing the assets of the federation's central banking institution, the Czechoslovak State Bank.

In January 1993 the Slovak government found itself under pressure from the Czech government to pay the Czech Republic some 19 billion koruny for those shares that Slovak citizens had purchased (with investment vouchers) in Czech companies under the voucher privatization scheme in 1992. Slovak citizens and investment funds had bought an estimated 22 million shares under this scheme; far more Slovaks traded their investment vouchers for shares in Czech companies than did Czechs for shares in Slovak companies. In February, following the currency separation, the Czech government officially announced that it would demand from Slovakia some 24.7 billion koruny ($882 million), which the Slovak government had allegedly withdrawn from the Czechoslovak State Bank prior to the breakup of the federation in an attempt to reduce its growing budget deficit.[1] Czech officials proposed repayment over ten years, but Slovak politicians initially refused even to acknowledge the debt, let alone negotiate a settlement.

Seeking to force Slovakia to pay its debt and to participate in nego-

[1] Reuters, 31 March 1993.

tiations on the settlement of other outstanding issues related to federal assets, the Czech government announced on 17 March that the shares Slovaks had purchased in Czech companies in 1992 would not be transferred to their owners until these issues—most important, the payment of Slovakia's debts—had been settled. The announcement seemed to imply that the shares would be seized if no agreement was reached.[2] The decision caused widespread popular resentment in Slovakia. The Slovak government condemned it as "blackmail," and Slovak Prime Minister Vladimir Meciar said that it was "an unacceptable form of pressure and a breach of international law and of Czech-Slovak agreements on the protection of investments." Meciar added that Slovakia was not "a Czech province" and that nobody could give it ultimatums.[3]

The decision to delay the transfer of shares to their Slovak owners was also criticized by some Czech politicians, who regarded it as a means of "nationalizing" private property and of applying the principle of collective guilt, insofar as it punished individual Slovak investors for the reluctance of their government to deal with unresolved issues concerning federal assets. Tomas Jezek, the chairman of the Fund of National Property of the Czech Republic, said that the decision would also adversely affect Czech shareholders because the entire process of voucher privatization would have to be delayed. (In April shares in some 1,490 companies privatized under the voucher scheme were to be transferred to the investors and investment funds that had traded them for investment vouchers in 1992.) Jezek warned that it could take months to establish the identity of Czech and Slovak shareholders through the computer data base that had been used to manage the voucher privatization scheme. He added that the postponement of shareholders' general meetings would increase the preprivatization agony of thousands of firms that had been drifting in the absence of clear ownership.[4]

On 30 March Slovak President Kovac arrived in Prague to discuss with Czech President Vaclav Havel and Czech Prime Minister Vaclav Klaus the outstanding issues concerning federal assets. Kovac and Klaus agreed that documents on the division of these assets should be signed by 15 April; but shortly after the meeting it became evident that this was an unrealistic timetable, since new disputes quickly flared up.[5] However, some progress was made. On 31 March Czech Industry Minister Vladimir Dlouhy and Slovak Economics Minister Jaroslav Kubecka signed an agreement on operating the pipeline through which gas from the former Soviet Union is delivered to Slovakia and the Czech Republic. They also signed an accord whereby the Czech Republic would pay Slovakia $1.30 for every 1,000 cubic meters of gas flowing through every 100 kilometers of the pipeline. The two sides agreed to use a ratio of 2:1 (in favor of the Czech Republic) in dividing deliveries of gas from the Commonwealth of Independent States, which are intended to pay for services that Czechoslovakia had rendered to the former Soviet Union.[6] Prior to signing the accord, Kubecka explained to the Slovak government that although the international rate for transporting gas was $1.40 for 1,000 cubic meters per 100 kilometers of pipeline, the Slovak side had been forced to accept a lower rate because in the absence of an agreement it was losing approximately 1 billion koruny a month in unpaid transit fees.[7]

On 7 April Czech Finance Minister Ivan Kocarnik and Slovak Finance Minister Julius Toth signed four agreements on the division of the former Czechoslovakia's assets, all of which dealt with the division of Czechoslovakia's financial obligations to other states and international organizations. However, owing to continuing disputes, the ministers failed to sign five agreements that were crucial for settling other outstanding issues concerning assets, the most important being an accord on the division of the former Czechoslovak State Bank's assets. Furthermore, the ministers failed to reach an agreement on the division of Czechoslovakia's 1992 budget deficit and postponed the discussion of other issues such as dividing the assets of Czechoslovak Airlines (CSA) and the Czechoslovak Travel Agency (CEDOK). Moreover, no progress was made toward formulating the final version of a general Czech-Slovak treaty on the settlement of issues concerning federal assets; this document would lay down the basic principles to be used in settling future claims.[8]

The ministers met amid a controversy caused by the Slovak president. Kovac had acknowledged on 5 April[9] that Slovakia owed the Czech Republic over 24 billion koruny, which had been used to finance the Slovak budget deficit; but, at the same time, he had claimed that this debt should be reduced by some 5–6 billion koruny, which, according to Kovac, represented various outstanding Czech financial obligations toward Slovakia. Kovac commented that the Czech Republic should compensate Slovakia for retaining the Czechoslovak flag after the breakup of the federation and for continuing to use

[2] CTK, 17 March 1993.

[3] *Narodna obroda*, 19 March 1993.

[4] *The Wall Street Journal Europe*, 23 March 1993.

[5] *Mlada Fronta Dnes*, 1 April 1993.

[6] Czech Radio, 1 April 1993.

[7] TASR, 30 March 1993.

[8] CTK, 7 April 1993.

[9] *Narodna obroda*, 5 April 1993.

established company names, such as CSA and CEDOK. He also argued that the Czech Republic had taken over "federal know-how," such as federally owned data bases located in Prague. The most controversial of Kovac's claims was that the Czech Republic should compensate Slovakia for eight Slovak villages that Czechoslovakia had given to Poland after World War II in exchange for a piece of land in Poland; that land is now located in the Czech Republic.

Kovac's statements of 5 April marked a change of approach. For the first time, such claims were made publicly by a high-ranking Slovak official; previously they had been voiced only by Slovak journalists. Some of these claims had virtually no chance of being taken seriously by the Czech side, since the Slovaks would have been unable to prove that they were bona fide financial obligations; this, in turn, meant that such claims, if really pressed by the Slovak government, might have resulted in the collapse of the ongoing negotiations. Moreover, at the beginning of April, Meciar repeated his earlier warnings that Slovakia would not accept ultimatums and would not negotiate under pressure. The Slovak prime minister also accused Klaus of breaking earlier agreements on the division of Czechoslovakia's gold reserves, according to which Slovakia was to receive forty tons of gold. Meciar said that in reality Slovakia had received less than one-third of the federal gold reserves.[10] On 6 April Klaus termed the Slovaks' latest demands "absurd and funny."[11]

Although both governments have repeatedly said that, despite continuing disputes, a settlement to the issue of federal assets would be reached soon, observers have become increasingly doubtful about the ability of the two new states to find a meaningful compromise. Even some government officials are pessimistic. Czech Transportation Minister Jan Strasky, for example, said he was convinced that Slovakia did not want to reach a settlement and gave that country's dire economic situation as a reason.[12] The Slovak government, for its part, has apparently realized that by refusing to issue shares in Czech companies to Slovak investors until a settlement is reached, the Czech government has set a trap for itself. The decision has been criticized by Western business executives as putting in doubt the Czech government's reliability in dealing with foreign investors as well as its respect for private property. Since the decision has delayed mass privatization in the Czech Republic, the Czech government has, in effect, been held hostage to its own ultimatum; although in the second half of March it sought to minimize the fallout of its decision.[13]

Partly in response to Kovac's statements of 5 April, some Slovak officials have begun advocating the "zero option" of the settlement on federal assets, whereby Czech and Slovak claims would cancel one another out. Klaus said on 6 April that he saw three possibilities: to wait for the Slovak side "to sober up," which would make possible a negotiated settlement; to abandon any property claims; or to intensify the conflict and start "playing tricks on each other."[14] On 15 April Klaus, apparently realizing the futility of trying to negotiate a settlement, said that he would accept a "super-zero option"; according to this option, at an agreed time the two sides would abandon all claims concerning federal assets. Klaus explained that this option differed from the "zero option" in that under the latter the obligations of one republic would have to be canceled out by the corresponding obligations of the other.[15]

Bilateral Trade

Issues related to federal assets are not the only cause of the deterioration in Czech-Slovak relations. Since the beginning of 1993, trade between the two countries has declined by almost 50%. The downturn accelerated significantly after the currency separation of 8 February. Some observers have blamed the decline on the cumbersome payments-clearing systems that were established after the currency split. Since neither the Czech nor the Slovak currency is externally convertible, the Czech and Slovak governments signed an agreement whereby they established two different payments-clearing systems: one for financial obligations originating before 8 February and another for ones originating after that date. The so-called accounting koruna was established as a common accounting unit under the first payments-clearing system; the European currency unit (ecu) served the same purpose under the second system. Rather complicated rules were drawn up, according to which trade deficits were to be calculated periodically and paid in hard currency. Many enterprises apparently found it difficult to conduct trade under these complicated procedures.

The decline in bilateral trade may also be attributed to the widespread expectation that, following the currency separation, the economically weak Slovakia would promptly devalue its currency by as much as 30%. It appeared that in the first few weeks after the currency split, Czech and Slovak enterprises, each for different reasons, were waiting for the Slovak government to decide whether it would devalue the Slovak koruna against

[10] *Rude pravo*, 1 April 1993.

[11] CTK, 6 April 1993.

[12] *Ibid.*, 30 March 1993.

[13] *The Journal of Commerce*, 30 March 1993.

[14] CTK, 6 April 1993.

[15] *Ibid.*, 15 April 1993.

major Western currencies. For political reasons, the Slovak government eventually rejected devaluation, advocating instead the introduction of import duties. However, while it was clear that the latter measure would slow down the shrinking of Slovakia's hard-currency reserves, it was equally evident that it would not generate new hard currency, as Slovak goods would not become cheaper abroad. Since under the payments-clearing systems Czech-Slovak financial obligations arising from bilateral trade were eventually to be settled in hard currency, many Czech companies were apparently unwilling to export to Slovakia after the currency split, fearing that the Slovak government would not have sufficient hard currency to pay for imported goods. In accordance with the payments-clearing agreements, the Slovak government devalued its currency by 5% against the ecu almost immediately after the currency split, and the Czech government followed with a 2% revaluation of the Czech koruna. Although these measures did not significantly boost trade between the two countries, they may have partly contributed to the fact that during the first three months of 1993 Slovak exports to the Czech Republic exceeded imports from that country.[16]

Another possible reason for the sharp decline in bilateral trade was that, despite the fact that the Czech Republic and Slovakia formed a customs union following the break-up of Czechoslovakia, the movement of goods between the two countries, especially after the currency separation, was increasingly hindered by bureaucratic procedures. In February the Czech Republic began to set up border check points. In April, after disagreements over the Czech Republic's unilateral decision, the two countries signed an agreement whereby they would cooperate in introducing customs checks at their common border. In the meantime, some Czech and international companies began to establish subsidiaries in Slovakia to circumvent the bureaucratic procedures at the border.[17]

Both republics were alarmed by the decline in bilateral trade. More than 25% of Czech foreign trade is with Slovakia, and more than 40% of Slovak foreign trade is with the Czech Republic. Czech government officials estimated that a drop of 10% in trade with Slovakia would result in a 1% decrease in the country's gross national product. While it had been predicted at the end of 1992 that the Czech economy would start expanding in 1993, some officials warned that, owing to trade problems with Slovakia, the Czech economy might contract by as much as 5% in the course of the year.[18] Others predicted that Czech-Slovak trade would eventually increase and that the overall decline for 1993 would not be as steep as the downturn that followed the currency separation. Nonetheless, it is clear that the decline in bilateral trade poses a serious economic problem for both countries.

Slovakia, in particular, can ill afford new economic setbacks. During the first three months of independence, the country's hard-currency reserves apparently continued to shrink; on 8 April Economics Minister Kubecka said that they had dropped from $200 million in January to $20–25 million in early April. He was contradicted by Slovak National Bank Chairman Marian Tkac, who said on 16 April that his bank alone held more than $230 million in hard currency;[19] but, given other contradicting statements by various government officials about the state of Slovakia's finances, it is not clear how reliable Tkac's figures are. Kubecka also estimated that in the sector of the economy under his ministry's jurisdiction, Slovak debts to the Czech Republic amounted to 34 billion koruny. The minister's estimates apparently included the obligations of individual Slovak enterprises to Czech ones, which have not been discussed at intergovernment negotiations. Kubecka also said that 120 enterprises in Slovakia were on the verge of bankruptcy and that 106 enterprises might have to stop production, owing to the lack of bank credits. According to the economics minister, most of these enterprises would be able to sell their products if they received the necessary financial backing.[20] Other alarming data were released by Slovak Finance Minister Toth, who said on 13 April that at the end of the first quarter of 1993 Slovakia's budget deficit had amounted to 13.5 billion koruny.[21]

Czech Prime Minister Klaus, alarmed by this announcement, warned that the state of Slovakia's economy and its unstable political situation could significantly hamper efforts to settle outstanding issues related to the division of federal assets.[22] In contrast to Slovakia, the Czech Republic has seen its hard-currency reserves grow by more than $400 million since the split of the federation. The country's overall reserves, now larger than those of the former Czechoslovakia, stood at $1.6 billion in April. This development prompted Klaus to say that the Czech koruna could soon be made fully convertible. In the first three months of 1993 the country also registered a budget surplus.[23]

Assessment

The Czech-Slovak divorce, which was originally dubbed "velvet," is

[16] TASR, 16 April 1993.

[17] See Jiri Pehe, "The Czech-Slovak Currency Split," *RFE/RL Research Report*, no. 10, 5 March 1993.

[18] *International Herald Tribune* and *Mlada Fronta Dnes*, 24 March 1993.

[19] TASR, 16 April 1993.

[20] CTK, 8 April 1993.

[21] TASR, 13 April 1993.

[22] CTK, 15 April 1993.

[23] *Ibid.*

proving less civilized and more complicated than anticipated. Although it seems most unlikely that the current disputes will escalate into an open political conflict endangering the stability of the region, Czech-Slovak relations have nonetheless soured. This development has been caused partly by unanticipated economic difficulties related to the breakup of the federation and partly by the inability of the two countries' leaderships, which have very different values, to communicate effectively. Moreover, the Czech government, which had conceded many of Slovakia's demands until the split of the country, has in the past three months become "tougher" and more confrontational, taking steps that could arguably have been avoided. While the Czech Republic might be justifiably interested in forcing Slovakia to pay its large debts, it should be even more concerned—as some Czech politicians have repeatedly stressed—about the economic well-being of Slovakia; at least for the present Slovakia is the Czech Republic's most important trading partner and remains connected to it by numerous other links. Any crisis in Slovakia is bound to have adverse effects on the Czech Republic.

Some of the issues related to the division of federal assets are very complex and will be almost impossible to resolve to the satisfaction of both sides. Pressure, threats, and ultimatums are unlikely to work; moreover, they cast doubt on the Czech government's respect for past commitments and private property. But the Czech government has almost no other means of forcing Slovakia to become more cooperative. Unless the Slovak government changes its position in the near future, the "super-zero" option proposed by Klaus might be a solution. The worst scenario for both countries would be a confrontation leading to the further deterioration of bilateral relations.

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