Vienna, February 27, 1936.

No. 712.

SIR:

I have the honor to refer to my despatch No. 685, of February 6, 1936, (file No. 681), reporting on the resumption under favorable conditions of the negotiation of an Austro-Czechoslovakian commercial agreement. In this despatch the difficulties in the way of reaching an agreement in view of the parallel nature of the economies of the two countries, were brought out, but at the same time the
apparent desire of both countries to reach an agreement was reported. In my confidential despatches No. 675, of January 25, No. 694 of February 6, and No. 707, of February 21, further background with respect to these negotiations was transmitted. In my despatch No. 707, I was able to report that the first stages of the negotiations were almost completed, that a successful outcome was practically assured, that the treaty would probably be a lengthy document comprising as much as 300 pages, and that in view of the detail covered in the treaty which would delay its final form, a modus vivendi or protocol might first be signed, most likely on the occasion of the prospective visit of Minister-President Hodza to Vienna.

I am now able to inform the Department that I learned from authoritative sources that the negotiations have reached a point where a successful termination may be considered certain. Towards the end of last week Dr. Friedman, who heads the Czechoslovak delegation conducting the negotiations in Vienna, returned to Prague to consult with his Government. Yesterday morning I had an opportunity to talk with the Foreign Minister here, Baron Berger-Saldernegg, in the Ministry for Foreign Affairs, on his return from a holiday spent in Florence. In reply to my inquiry as to whether there was any information he could give on the progress of the negotiation of the commercial agreement with Czechoslovakia, he said that he was very glad to say that the negotiations had made good progress. In view of the previously rather pessimistic attitude which he had assumed as to the outcome
outcome and which I had reported to the Department, it was interesting to note the more optimistic tone in which he spoke. I asked him whether he considered the conclusion of an agreement certain, to which he replied that he now felt most optimistic. Naturally, he said, the agreement might not meet the expectations of the Austrian Government, but that what they saw in prospect must be considered a great advance. I ventured to say to him that in my personal opinion the movement which was in progress towards bringing the Little Entente and Austria and Hungary together in more close economic relationship, was a most important one in their interest and in that of Europe, and that the failure of Austria and Czechoslovakia to reach any agreement on this trade treaty now under negotiation would probably have very serious consequences and be a definite check on this entire movement which held so much promise. The Foreign Minister replied that this was the attitude which he had on several occasions expressed to Chancellor Schuschnigg and which was also strongly adhered to by the Chancellor.

After an informal dinner at my home last evening the Foreign Minister said that he could inform me in strict confidence that Dr. Friedman had just returned from Prague that day and had had a meeting with Dr. Wildner of the Austrian Foreign Office, early in the evening in which he had informed Dr. Wildner that his instructions permitted him to proceed with the negotiations in a manner which made the conclusion
conclusion of an agreement a certainty. From the confidential observations of the Minister, I gather that the agreement will provide for very detailed arrangements under which a decrease in the Austrian unfavorable trade balance with Czechoslovakia of from fifteen to sixteen million schillings is envisaged. It may be observed that for 1935 the Austrian unfavorable balance with Czechoslovakia was ninety-one million schillings. The Minister further observed that the treaty was going to be a rather lengthy document and would probably comprise, as I have already reported to the Department, some three hundred pages. This lengthy agreement was necessitated by the complicated nature of the arrangements due to the parallel economies of the two countries.

The Foreign Minister further informed me that the visit of Minister-President Hodza to Vienna had now been definitely fixed for March 8, and that he would remain in Vienna for two days. As there were details of the negotiations not yet completed and as the actual preparation of the full text of the long agreement would require so much time that it might not be ready by the time Dr. Hodza arrived in Vienna, he remarked that it was contemplated in that case to prepare a modus vivendi or protocol to be signed during Dr. Hodza's visit in Vienna. It is clear that the negotiations have been accelerated by the approaching visit here of Dr. Hodza and the desire of the two Governments to give added significance to the visit by the signature of the treaty or at least a protocol preceding its actual conclusion.

The pressure which has been exerted from various directions principally from Berlin and more indirectly
from Budapest, against the conclusion of this agreement has, as may have been foreseen from my reports to the Department, been without success. As the present negotiations between Austria and Czechoslovakia envisage the extension of the provisions of the agreement to the other states of the Little Entente and to Hungary, it is the intention of the Foreign Minister and Chancellor Schuschnigg to make a visit to Budapest early in March. The visit will be officially indicated as the return of the courtesy visit made by Minister-President Cachosoe and Foreign Minister Kanya in Vienna some time ago. In fact, however, the objective of the visit will be to show that the conclusion of the commercial agreement with Czechoslovakia does not indicate any lack of Austrian-Hungarian cooperation and it will be the aim of the Austrian Chancellor and the Foreign Minister to prepare the way so far as may be possible for Hungarian cooperation. The Foreign Minister informed me in confidence that his visit and that of the Chancellor to Budapest is now scheduled to take place on March 13, although public announcement of the date will not be made for some time.

The details of the Austro-Czechoslovakian trade agreement have been kept confidential. It has been impossible to get any information as to the details further than the remark of the Foreign Minister to me that it would provide for a decrease in the Austrian unfavorable trade balance with Czechoslovakia of approximately fifteen to sixteen million schillings. It is obvious that this will still leave Austria with an unfavorable balance with Czechoslovakia which is somewhat too large, but I venture to say that the
significance of the treaty, cannot be seen in the actual amount of reduction in the trade balance now. The significance lies in the fact that it has been possible to arrive at any agreement. The relations between the two states have not been too cordial. There has been mutual distrust, even dislike, which extended from high officials of the Government down to the population of the two countries. The parallel nature of the economics of the two countries is more than a mere phrase; it is a fact. I have reported in my despatches under reference sufficiently the background which has made possible this agreement. That it has been arrived at is one of the most hopeful developments for some years in Central and Southeastern Europe.

It will give a favorable impetus to the movement for further cooperation between the Little Entente and the states signatories to the Rome Protocols, that is, Austria, Hungary, and Italy. It will open the way for the closer cooperation economically of these states with those of the Balkan Union. How far this road can be travelled is not yet clear, but at least the first definite concrete and hopeful step in that direction will have been taken with what now seems to be the assured signature of the Austro-Czechoslovakian agreement.

Respectfully yours,

George S. Messersmith.