

Entry of West German Investments into the Czechoslovak Economy in the 1970s through the Example of Schwarzkopf AG

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Abstract

This article deals with the economic relations between the Federal Republic of Germany and Czechoslovakia in the 1960's and 1970's. Its goal is to establish whether the current economic interconnection of the German and Czech economies has its roots in the period of the so-called normalization. Particular emphasis is placed on the institutional anchoring of mutual relations, the development of trade and West German investments in the Czechoslovak Socialist Republic. Interest is drawn to the joint cooperation agreements and projects in the automobile industry and engineering that came to fruition. The circumstances surrounding the intensive inflow of such investments from West German into Czechoslovakian companies prior to 1989 is analysed using the example of the licensing agreement with Schwarzkopf AG. The author's conclusions are based upon the interpretation of unpublished sources, primarily from the collections of the Bundesarchiv Koblenz and the Konzernarchiv Henkel.

Key words: Federal Republic of Germany, Czechoslovakia, West German-Czechoslovak relations, licensing agreements, Schwarzkopf

Introduction

This article deals with the relatively untouched issue of the economic interests of the Federal Republic of Germany and private West German companies in Czechoslovakia during the period of normalization. The goal was twofold. Firstly, to establish which institutional anchors existed for the economic activities of West Germany in the Czechoslovak Socialist Republic. Secondly, to establish, through the investment plans and licensing agreements of Schwarzkopf AG, that the origin of the strong interconnectedness of the Czech and German economies at the present time is not just

the result of large German investments in the transition period of the 1990's, but rather due to the activities that took place in the period prior to the events of 1989. To this end, only a brief period of the 1970's is looked at for the analysis. This is for the following reasons: in 1973, official diplomatic relations between Bonn and Prague were established which resulted two years later in the signing of the Agreement on Economic Cooperation and Scientific-Technical Collaboration. Within a broader context, this was the jewel in the crown of Federal Chancellor Brandt's (SPD – German Social Democratic Party) policy towards the Eastern Bloc. The policy included the renewal of diplomatic relations with Eastern Bloc countries and the expansion of economic cooperation. The most significant period of expansion in mutual trade and intensive political dialogue began in 1981, with the election of the centre-right candidate, Helmut Kohl, as Federal Chancellor (CDU - Christian Democratic Union). His election saw the start of high level, intensive and constructive efforts by the federal government to actively seek out opportunities for cooperation between West German and Czechoslovak companies which had until then been overshadowed by the increased activities of private entrepreneurs and investors. Unfortunately, only the fragmentary sources of the former archive of the Central Committee of the Czechoslovak Communist Party (ÚV KSČ) can provide evidence of this. Documents from the institutions of the federal government dating to the mid-1980's remain inaccessible and unpublished.

The research carried out in the above referenced archive was necessary in order to credibly establish West Germany's entry into the Czechoslovak economy during the period of socialism. Confirmation of the institutional dimension of the cooperation can be found in the form of published agreements and in the compilation of laws. The hypothesis that the Federal Republic of Germany had increasing economic interests in Czechoslovakia was also confirmed through official annually published statistics on the values of the mutual exchange of goods. Unfortunately, neither published sources nor professional monographs exist, therefore partial research studies into specific cases of cooperation are considered to suffice. Within this context, Czech historiography has also included works that have often focused on the partial issues of mutual relations after 1945 (Jindřich Dejmek, Ivan Jakubec, Radek Soběhart, Jaroslav Kučera, Miroslav Kunštát).

Gradual Improvement in Relations

In the autumn of 1949, after the creation of the independent Federal Republic of Germany, relations between the former western occupied zones and Czechoslovakia remained cool. This was emphasized in economic terms by the passing of the Marshall Plan in the Federal Republic of Germany and in contrast, the inclusion of Czechoslovakia into the structures of the Council for Mutual Economic Assistance. In the first half of the 1950's it became clear that the Czechoslovak government was, for ideological reasons, intensifying mutual trade with the Soviet Union and the Eastern Bloc. This intensification of relations was at the cost of existing intensive business contacts with the rest of Europe. At the time, the Federal Republic, as part of the implementation of the Hallstein Doctrine, refused to create official diplomatic relations with Czechoslovakia in light of its lack of recognition of the German Democratic Republic. However, as far as business was concerned, the government in Bonn was more pragmatic. This pragmatism was reflected in the advice the government gave to businesspeople. Those with

investment interests in the countries that made up the Council for Mutual Economic Assistance were told not to be discouraged by political developments (Rudolph 2004). West German diplomats and businesspeople therefore occasionally travelled to Czechoslovakia, leaving interesting records of their travels. For example, in the personal correspondence of the former German Ambassador to the United Kingdom, Hans Schlang-Schöningen, a message was found from a businessman from Mülheim regarding his trip around Czechoslovakia in 1959: "I have returned from my trip to Prague. They treated me very hospitably (...) People must export, unless they want to go hungry, because their agriculture is woeful. A large part of the food must be imported (...). New modern crusaders must once again go to battle so that (...) slowly but surely at least a part of our country gets back under control (...). After all, we are also investing capital in other countries, so why not in the East? The position of Poles and Czechs of not operating and completely ignoring any trade is erroneous at its root." (Bundesarchiv Koblenz, sg. N 1071/15). Several years later, reports from West German businesspeople had become significantly more positive. They were surprised by the relatively good standard of living, although they also noted the lack of consumer goods, as well as the bad state of the infrastructure (Bundesarchiv Koblenz, sg. B 102).

It was only in March 1963 that a protocol on the exchange of goods between the Czechoslovak Socialist Republic and the Federal Republic of Germany was signed. This protocol was de facto valid until the second half of the 1960's. Representatives of the Czechoslovak government also made it clear to Wolff von Amerongen, the head of the Ost-Ausschuss der deutschen Wirtschaft, during the Brno Trade Fair, that they were interested in expanding trade along the same lines as had been established with Poland, Hungary, Romania and Bulgaria (Rudolph 2004). However, it was not until 1967 that, after complicated negotiations, a West German Chamber of Commerce was successfully opened in Prague (Jakubec 2005). The political issues aside, one additional factor played a role in delaying the deepening of mutual business relations when compared to Hungary, Poland and Bulgaria. This factor lay in the difference in export profiles. The Czechoslovak Socialist Republic exported more finished industrial products to the markets of the European Economic Community, primarily into West Germany, whereas the other countries exported more agricultural produce.

The process of normalization after 1968 suppressed Czechoslovak interest in deepening relations with the Federal Republic. At the start of the 1970's conservative financial policy prevailed in Czechoslovakia. This autarchic policy was promoted by the federal administration of Lubomír Štrougal, supported by the Minister for Foreign Trade, Andrej Barčák, the Minister of Finance, Leopold Lér, as well as the Chairman of the Czechoslovak State Bank, Stanislav Potáč. This policy was in contrast to that in other socialist states who utilized the preparedness of West German investors to participate financially in joint projects.

In 1973, diplomatic relations were finally re-established with the signing of the Agreement on Mutual Relations between the Czechoslovak Socialist Republic and the Federal Republic of Germany. Upon signing the agreement, voices within Czechoslovak state companies and trade immediately began calling for the deepening of cooperation with West Germany. They did this in an effort to counterbalance the great influence of French and Italian importers and investors, primarily in the areas of engineering goods and the automotive industry (Bundesarchiv Koblenz, sg. B 102). Representatives of the German car manufacturer BMW even requested the Federal Ministry of Economy to

attempt to negotiate with the Czechoslovak government, because “the construction of FIAT and RENAULT plants in some socialist countries has caused a nearly complete loss of any basis for active export by the German automotive industry.” (Bundesarchiv Koblenz, sg. B 102). Despite the fact that, for example, Volkswagen had begun to work on a project with Czechoslovak partners from the car producer Automobilové závody, národní podnik, Mladá Boleslav (State Automobile Company, Mladá Boleslav; hereinafter referred to as AZNP) and had held discussions on the installation of German engines into Škoda automobiles, neither project resulted in any production. However, the numerous meetings between representatives of Volkswagen and AZNP Mladá Boleslav did lead to their subsequent successful cooperation on the modernization of the Škoda Favorit. Similarly unsuccessful efforts at direct cooperation were made between Tatra Kopřivnice and Kloeckner-Humboldt-Deutz AG on the joint production of ventilated truck engines (Bundesarchiv Koblenz, sg. B 102).

The lack of progress on this front only led to a change in understanding of foreign investments in the mid-1970's. This change was driven by two factors. Firstly, the inability of Czechoslovak industry to maintain the levels of exports of industrial goods to developed countries in Western Europe. Secondly, by worsening exchange rates as a result of the high demand for energy. The deliberations resulted in 1975 in the signing of the Agreement on Economic Collaboration and Scientific-Technical Cooperation with the Federal Republic of Germany. This set the foundation for intense dialogue both on the intergovernmental and intercompany level. This was seen most noticeably in the creation of the German-Czechoslovak Committee for Cooperation, which held its first meeting in Prague in the autumn of 1975 (Bundesarchiv Koblenz, sg. B 102). In the late 1970's and 1980's the importance of the committee continued to grow with the election to the joint post of chairmen of the Federal Minister of Economy and the Deputy Prime Minister of the Czechoslovak Federal Cabinet. In addition to this committee, other specialized committees for individual industrial sectors were set up and held meetings.

By the second half of the 1970's, approximately 30 cooperation projects were entered into. These projects mostly involved licensing agreements primarily focused on the chemical and metallurgical industries. Vacmetal (Hoesch) from Dortmund participated in the construction and operation of vacuum equipment for the processing of liquid steel in Vítkovice. Thyssen-Rehinstahl installed equipment at the Východoslovenské železiarne in Košice (East Slovak Steel Mills) for the de-sulphurization of raw iron. The other direction, Czechoslovak companies provided Dynamit Nobel with a license to produce Feropur, a preparation for metal steeping (Bundesarchiv Koblenz, sg. B 102). On occasion, the federal government would express its disappointment with the number of cooperation agreements and would point to the greater number of West German projects in Poland and Hungary as examples of this. However, these comments ignored the greater openness there existed in the neighbouring countries with regards to German investments, the liberal laws that existed there too on the establishment of companies with joint participation, as well as the slowing West German economy of the 1970's (Bundesarchiv Koblenz, sg. B 102).

Under normal circumstances, the slow development of institutional cooperation would be an indication of equally slow development in mutual trade relations. However, large West German companies such as Krupp and Siemens managed to work their way into joint projects with Czechoslovak companies without such institutional security. In addition to the engineering sector, companies from the food industry and cosmetics

were also able to establish themselves in Czechoslovakia. In parallel to these activities, Czechoslovak companies were able to export a large proportion of their products to European Community countries, in particular the Federal Republic of Germany e.g. more than half of all textile production (Bundesarchiv Koblenz, sg. B 102). The fast growth in the mutual exchange of goods is evidence of the intensifying trade relations that were developing without institutional support. Whilst in 1961, the value of exports was DM 0.55 million (German marks), by 1970 it had risen to DM 1.8 billion, and by 1974 to DM 2.8 billion German marks in 1974. This put the Federal Republic of Germany in fourth place in Czechoslovakia's foreign economic relations (Bundesarchiv Koblenz, sg. B 102). In 1971 and 1977, the so-called Hamburg Economic Days took place in Prague. A delegation from the port of Hamburg also took part. Czechoslovakia was its second most important partner for the transit of goods (Bundesarchiv Koblenz, sg. B 102). When the Federal Minister of Economy, Count Otto von Lambsdorff, came to Czechoslovakia in 1981 and mentioned that West German exports into the Czechoslovak Socialist Republic were stagnating, the State Secretary of the Ministry of Foreign Trade, Jaroslav Jakubec, emphasized the point that France and Italy were complaining about the preference being given to business with the Federal Republic (Bundesarchiv Koblenz, sg. B 102).

“Taft – for every day, for all hair”: a Case Study of Successful Licensed Production

The West German company Schwarzkopf AG successfully entered the Czechoslovak cosmetics market. After 1945, the family run business moved from Berlin to Hamburg. Its headquarters remained there until 1996, when the company was sold to the Henkel concern. After re-establishing the business on the West German market in the 1950's, the owner, Hans Schwarzkopf and his sons, sought options with which to replace not only the loss of the East German market, but also to reassert the company's products on the markets in other Eastern Bloc countries. The Schwarzkopf brand had been well established prior to World War II, but consumer awareness of its existence was gradually fading away. Schwarzkopf therefore, like in other western European countries, decided to utilize all the options available to it to open up channels of communication with socialist companies and governments. In the majority of cases this meant either participation in trade missions to the countries in question or visits to international trade fairs held within those countries. Examples include the trade fairs in Brno (Czechoslovakia) and Leipzig (German Democratic Republic). From the start of the 1960's there was a significant shift in this regard. Eastern European governments no longer obstructed the development of business relations with Western Europe.

Companies like Schwarzkopf were very interested in expanding their operations into eastern European countries, but they lacked knowledge of the local conditions. This included information on how state companies functioned within a planned economy, the legal regulations, as well as the contacts to important representatives of government authorities that could open the doors to cooperation. This lack of knowledge was utilized by professional company brokers who usually knew the local language, had a long-term presence in local society, and had a network of contacts within government institutions that made the decisions on foreign business cooperation. Such representatives gradually joined together into eleven agencies representing the interests of foreign companies in Czechoslovakia (Bundesarchiv Koblenz, sg. B 102).

Such professional representatives included the likes of Eric H. Knapp, an emigrant from Czechoslovakia, living and doing business on a long-term basis in Canada. He utilized the opportunity perfectly and represented the interests of western companies in Czechoslovakia and Poland. In 1966, during his stay in Canada, he contacted Gerd Schwarzkopf, the director of the Canadian branch of Schwarzkopf, and offered him his services (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). In a letter to his father in Hamburg, Gerd wrote that Knapp had visited him, because he had, he said, information that Schwarzkopf was intending to develop business in Czechoslovakia. Knapp's overly confident behaviour struck Gerd as untrustworthy, but his attention was captivated by the emigrant's proposal. According to the proposal, the Schwarzkopf brand was still well known in socialist countries and there was an opportunity for the company to re-establish itself because it would not be exposed to any competition. "Definitely no competition, as far as product quality is concerned" (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I).

Knapp prepared for the meeting and immediately put forward examples of how the company could manufacture its products in Czechoslovakia. According to him, shampoos and hairsprays could be manufactured at a factory in Bratislava, where the most modern production line was, and creams, hair colours and hair conditioners could be manufactured in two other factories in Prague. However, the Czechoslovak side would allegedly require 10% of the products to remain for sale in Czechoslovakia with the remainder allocated for export to Romania, Bulgaria, the USSR and Poland. The majority of the material for production was to come from Romania (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I).

It is interesting to note that Knapp urged for an agreement to be signed with the Canadian branch of Schwarzkopf. The branch, under the stewardship of Gerd Schwarzkopf, operated from Toronto under the name "Silhouette Products Ltd.". Knapp stated that the reason for this were the excellent trade relations at the time between Canada and the Czechoslovak Socialist Republic (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). However, it is likely that he had already previously attempted to work with West German companies and had encountered legal problems that did not enable him to complete the transactions. Despite the fact that Gerd was cautious in his assessment of Knapp's intentions, he did finally call the project a fantastic opportunity, "one that should not be ignored" (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). Knapp recommended cooperation with the Czechoslovak company Chemapol through a concession to produce and distribute cosmetic preparations, creams, aerosol shaving creams, shampoos and anti-dandruff preparations i.e. products that there were in short supply on the Czechoslovak market.

Both Hans and Gerd Schwarzkopf had their reservations about Knapp's intentions. Hans, in a letter to Gerd, complains that besides a large fee, Knapp was also asking for a company car to be made available to him in Czechoslovakia, and that he was refusing to go to Hamburg to negotiate with the company in person: "What was your personal impression of Mr. Knapp? The honesty and righteousness of this person are of the utmost importance, as it is quite possible that he will receive a high fee for months and the transaction will never materialize." (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). In addition to this, Knapp also asked for cash finances in order to speed up the negotiations with Czechoslovak authorities. This unsettled Hans Schwarzkopf because he did not want the family company to be associated with bribery. It is for this

reason the Schwarzkopf company hired a private investigator in Canada to check Eric Knapp out. The truth came out and their wariness was vindicated. Two companies for which Knapp had previously worked had declared bankruptcy and he had threatened the representatives of an American company that had wanted to negotiate deals in Eastern Europe through him with a revolver. The Schwarzkopf company broke off communications with Knapp with immediate effect (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I).

Schwarzkopf - Development of Licensed Production in the 1970's

Finally, primarily due to the opening up of the Federal Republic of Germany Chamber of Commerce in Prague in 1967, simplified negotiations took place directly with the Czechoslovak foreign trade company, Polytechna, and the directorate of Tukový průmysl (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). The preparation of the manufacturing license agreement brought up the question of whether the existing companies would be able to handle the production of large amounts of products. For that reason, the representatives of Tukový průmysl decided that the majority of the products would be manufactured under license at the company Milo Olomouc, and a completely new company, Astrid, would be established in Prague to manufacture the popular Taft hairsprays (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). The licensed manufacturing agreement for both companies came into force in March 1969. In the following years, PZO Polytechna attempted to negotiate a reduction in the license fees as a result of an increase in the Czechoslovak income tax in 1971. However, it is likely that Polytechna submitted the request on the basis of the requirements of the government to reduce expenditures in convertible currencies. The management of Schwarzkopf did not agree to the changes. On the contrary, they took the opportunity to highlight the accommodating concessions the company had made with regards to the Czechoslovak production plants. These concessions included the provision of machinery and the repairs thereof free of charge, as well as material for the production of advertising in Czechoslovakia (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I).

However, at the start of the 1970's, new licensing agreements needed to be drawn up. In order for Schwarzkopf to maintain its strong position on the Czechoslovak market it had to concede on the issue of licensing fees for certain products e.g. TOPAS sunblock cream (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). This product was produced by the Rakona plant of Tukový průmysl in parallel with its own protective preparations. As a result, whilst the purchase prices of individual products produced by the Astrid and Milo companies gradually grew, Schwarzkopf, in view of its excellent relations and good sales results, could leave prices at a lower level. In 1971, the purchase price of Igora Royal increased from DM 2.40 to DM 3 in 1976, but the license fee was left at the 1971 level. The same thing was true for products that were introduced later. Consideration was always given to the purchase price in the year when a product was put on the market (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). Despite the fact that the company management considered increasing prices in 1977, better turnover and the expectation of a further rise in sales led to the license fees being maintained at the 1971 level until the end of the 1970's (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). From the point of view of Czechoslovak companies, the licensing agreements

with the Schwarzkopf company were advantageous not only for the coverage they provided on the domestic market with goods that were in demand, but also for the opportunity they provided to export such products to other states of the Council for Mutual Economic Assistance. However, at the end of the 1970's and the beginning of the 1980's, Schwarzkopf entered into new agreements for licensed production in other socialist countries. As a result, in 1978, Astrid ceased exporting its products to Romania, the Soviet Union and the German Democratic Republic (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I).

The actual quality of the licensed products was monitored regularly by the Schwarzkopf company. The company archive includes the reactions and suggestions of end customers, who, for the most part, spoke highly of the products, including West German tourists in Czechoslovakia (Konzernarchiv Henkel, Schwarzkopf GmbH K-Akte ČSSR I). As a result, the assortment of goods produced under license was gradually expanded and further Czechoslovak companies became involved in the cooperation e.g. Povltavské tukové závody in Kralupy nad Vltavou or Kozmetika Bratislava, or Palma in Bratislava.

Conclusion

The intent of this article was to establish the development of business relations between the Federal Republic of Germany and Czechoslovakia prior to 1989. It is evident from the research that this was the case at both an institutional level and individual business level. Despite the fact that official diplomatic relations between both countries were only confirmed by way of an international agreement from 1973, the Federal Republic of Germany had had a Chamber of Commerce in Prague since 1968. The research also shows, through the example of the licensed manufacturing of Schwarzkopf products, that in the 1970's effective cooperation between Czechoslovak state businesses and West German investors could successfully be developed. However, within the analysed period, this is only example which could be documented due to the access that was given to materials in the Schwarzkopf company archives. Inaccessible sources of the federal government after 1985, as well as the inaccessibility and incomplete documents of Czechoslovak government institutions until 1989, make further research more difficult. Further research will therefore need to focus on company archives that contain documentation pertaining to cooperation with Czechoslovak partners e.g. Siemens, BASF, Thyssen/Krupp, Volkswagen, Bayersdorf and others. A thorough analysis of these business documents will likely confirm the hypothesis of the interconnection of the Czechoslovak economy with West German industry during the period of normalization by providing additional examples of direct investments, licensing agreements and collaboration projects.

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