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## Business Diplomacy in the 1930s - West European Heavy Industry Cartels, Hitler's Foreign Policy, and Economic Appeasement

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Business Diplomacy in the 1930s:  
West European Heavy Industry Cartels,  
Hitler's Foreign Policy, and Economic  
Appeasement.

John R. Gillingham

ENTWURF/ DRAFT

Business Diplomacy in the 1930s:  
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In the days when Appeasement was in full flower, from the 15 September 1938 Munich Conference to the 15 March 1939 occupation of Prague, the governments of both Great Britain and France invited Reichsgruppe Industrie, the "peak organization" for business in national socialist Germany, to join their national industry associations in the formation of cartels to divide global markets, international consortia to undertake turnkey projects in the colonies, and joint ventures to reconstruct the economy of fascist Spain. The businessmen of the Reich were, then, called upon to "save the peace" by joining with their Anglo-French colleagues in exploiting the rest of the world for their mutual benefit.<sup>1</sup>

The idea, while futile, was no mere will o' the wisp. It was rather an effort to elaborate on a theme whose importance is still largely unrecognized, namely the development to replace discredited laissez-faire of a new common outlook among the businessmen of Western Europe. It can be subsumed under the heading "industrial self-government." The Reich was its place of origin. By the late 1920s the important branches of German industry were organized into cartels and trade associations. Under the aegis of such bodies, whose functions were in fact often interchangeable, markets could be allocated, prices maintained, patents exchanged, "rationalization" plans formulated and put into practice, labor disciplined, and governments influenced. Advocates extolled "industrial self-government" as a solution to the problems

of industry, national economic policy, and even international diplomacy.<sup>2</sup>

In the Western Europe of the Depression years, "industrial self-government" became the dominant big business philosophy. In Britain, its main proponents were initially to be found within the ministries---Board of Trade, Foreign Office, Treasury, The Bank of England, etc. After 1931, and sometimes in the teeth of strong opposition, the National Government vigorously promoted the formation of industry associations and cartels with a view to the somewhat contrary purposes of both protection and modernization. In France, laissez-faire had been discredited in fact if not in theory by 1929; agreements in restraint of trade existed in every branch of the French economy. There the new outlook developed first from within the technocracy and big business. Prominent figures from these circles exercised pressure on the government throughout the 1930s to make use of industry associations for the formation and implementation of national economic policy. In Belgium, the advocates came from within the management of the holding companies which dominated the nation's economy. They imposed German organizational methods within industry, while at the same time effectively making national economic policy from behind the scenes.<sup>3</sup> In the Reich itself, finally, "industrial self-government" became the official economic doctrine of national socialism. Existing industry associations were strengthened, new ones formed, and the whole

edifice of organized business re-named Reichsgruppe Industrie. Its branch-industry components, the Wirtschaftsgruppen, took over the responsibility of managing the conversion to the rearmament economy.<sup>4</sup> By the time of Munich, in other words, cartels and producer associations existed for every branch of industry in each of the industrial nations of Western Europe, and those who viewed them as instruments of a new approach to doing business were well-positioned in their respective economies.

The Anglo-French idea that this common outlook could provide the basis of a general diplomatic settlement with the Reich was based above all on the good relations existing between the heavy industry of their nations and that of the dominant producer area in Western Europe, the Ruhr. The most important monument to them was the "second" International Steel Cartel formed in February 1933 by the producers of the Reich, France, Belgium, and Luxembourg. Britain joined it in April 1935. The entente not only dealt satisfactorily with the main export problems facing the industry but also those resulting from "politics"---shifts in borders, changes in tariff structures, competitive devaluations, and the imposition of import and export quotas. The alliance in steel generated complementary arrangements in coal. The Reich formed ententes in both coke and coal with its main competitor, Great Britain, to which the other European exporters eventually subscribed. It also enjoyed a privileged relationship as supplier to both

France and the Bel-Lux union. These ties held implications for the long-run development of the national industries involved which, in some respects, outweigh their immediate importance in the diplomacy of the post-Munich period. Behind the Anglo-French "economic appeasement" initiative was, at any rate, the hope that the "community of interest" in Western European heavy industry could be worked into a broader settlement for industry as a whole.

The Internationale Rohstahlgemeinschaft (IRG) was formed 25 February 1933 by representatives from the national steel producer associations of Germany, France, Belgium, and Luxembourg and grew in size and strength until the suspension of its operations on 1 September 1939. On 30 April 1935 the British Federation of Steel Industries became associated with it, thereafter forming with the original signatories ("the Continental Group") the larger entity known as the European Steel Cartel. The producers of Czechoslovakia, Hungary, and Poland entered the latter over the following year, comprising a third, if minor faction, the "Central European Group." Finally, in November 1937 the four major American steel producers, represented by the Steel Export Association of the United States, affiliated with the Europeans. Among steel exporters, only Japan and Sweden remained formally outside IRG. By 1938, over 85 percent of world steel exports were directly under its control. Its delegates assembled about once a month to settle problems arising from within the industry

and changes in the general business environment, discourage competition from outside, and extend the reach of the cartel itself.<sup>5</sup>

The strength of the IRG was due first of all to the adoption by its signatories of German methods of "industrial self-government." When the original International Steel Cartel was organized in 1926, analogues to the Stahlwerksverband did not exist elsewhere. One of the purposes behind the formation of the IRG was in fact to cartelize domestic markets through regulation of exports. The 1926 agreement assigned each signatory a global production quota. The amounts which could not be exported through existing "sectional" cartels for specialized products were to be absorbed on the domestic market. Success was only partial. The French revived the Comptoir Sidérurgique, which was effective. The Belgian industry, however, remained disorganized and the domestic market was too small to absorb export surpluses. Belgian underselling in fact wrecked the original IRG in 1932. Great Britain, for its part, was committed to free trade and therefore was not a party to it.<sup>6</sup>

The operation of the 1933 agreement presupposed effective cartelization of domestic markets. On 31 May 1933 a cooperative commercial company, "Cosibel" (Comptoir de Vente de la Sidérurgie Belge), was founded to operate as a selling agent on the Belgian market. In the new agreement a clear distinction could then be made between domestic and foreign sales.



Crude steel export quotas, subdivided by product, were assigned on a sliding scale which, as exports increased, favored producers with large domestic economies such as France and Germany but, as they fell, favored the export-dependent industries of Belgium and Luxemburg.\* A number of reorganized, and some new, "sectional" cartels underpinned the structure of the IRG, those, in particular, for semi-finished products, structural shapes, merchant bars, thick plates, medium plates, wire rods, hot rolled bands and strips, cold rolled bands and strips, piled sheets, black sheets, galvanized sheets, rails, wire, tubes, and tin plates. Wholesaling was by means of comptoirs, which existed for each specialized manufacture. There were three kinds of dealers: those belonging to member-firms, comptoir agents, and "authorized" importers on exclusive contract.<sup>7</sup>

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\* TOTAL ANNUAL CRUDE STEEL VALUE  
OF EXPORTED COMMODITIES

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	6.8 million metric tons or less	11.5 million metric tons or more
	%	%
Germany-Saar	29.2	33.7
Belgium	29.0	26.0
France	20.6	23.5
Luxemburg	21.2	16.8
	100	100

The IRG was held together both by the superior economic performance of the European steel industry and the diplomatic skill of its members. World steel production increased from 66.73 long tons in 1933 to 133.28 long tons in 1938, an historic high. While the export trade never fully recovered, reaching only 80 percent of 1929 by 1938, the four European founder-members enjoyed a disproportionate gain in exports, which increased from 3.5 million tons in 1933 to 7.1 million in 1938, the gains being shared between them on the basis of the quota agreements. The IRG probably deserves credit for the improvement in steel export prices which occurred during these years, since considerable production capacity in both Belgium and Luxemburg remained idle even during 1938. It is also true that by resorting to embargo and underselling, or threats of the same, the IRG was often able to frustrate the plans of would-be competitors. The IRG did not promote the kind of "rationalization" efforts which might have brought the European industry abreast of U.S. standards of competitiveness. It was at least partly responsible, however, for the restoration of several continuous years of profitability to British and German steel and at least intermittent ones to the industries of France, Belgium, and Luxemburg.<sup>8</sup> More importantly, the leaders of the cartel headed off a succession of political crises. In so doing, they forged the bonds of a "community of interest," which, in its essentials, has survived up to the present.

There were three such alliances. The first, most fundamental, closest, enduring, and significant of them was between the steel producers of the Ruhr and Lorraine. It developed from the settlement of the problems arising as a result of the end on 10 January 1925 of duty-free entry into the Reich of raw materials and finished products. Rather than face a tariff war, the Ruhr ceded an import quota, the famous "contingent lorrain-luxembourgeois," to producers now cut off from the pre-1918 Reich customs area. Thanks to this arrangement, which was concluded 4 November 1926, the Lorrainers found markets for their excess capacities of semi-finished steel. The Ruhr, for its part, averted the imposition of tariffs which might have eliminated the French market for German-manufactured goods and encouraged the growth of competition. The conclusion of a Franco-German trade treaty as well as the original International Steel Cartel (which also included Belgium and Luxemburg) followed in short order.<sup>9</sup>

These arrangements created within France a powerful interest group whose aim it was to promote economic and political cooperation with the Reich. Its fortress was the Comité des Forges, a body dominated by the Laurent and De Wendel families of Lorraine. It numbered a few prominent supporters from within industry (such as Henri de Peyremhoff of the comité de houillères, René Duchemin of Ets. Kuhlmann), the technocracy (Coutrot, Branger), and the world of opinion-making (such as the publicist Wladimir d'Ormesson, the historian Lucien Romer,

and the sociologist André Siegfried). It could count on favorable treatment from an influential section of the press. Big industrialists owned four Paris dailies outright, Le Temps, Le Journal des Débats, L'Information, and La Journée Industrielle. They subsidized ten others.<sup>10</sup> From September 1931 to October 1938 the group was well-represented in Berlin, namely by the French Ambassador André François-Poncet. He was a director of both the Comité des Forges and the foundry Ets. Japy. His first speech, a plea for Franco-German industrial cooperation, would provide the leitmotiv of the tenure-ship of "Hitler's favorite ambassador."<sup>11</sup> And he, along with his colleagues in France, were determined to make it work even in the face of political obstacles.

The second alliance was between the Franco-German bloc and the two holding companies (the Société Générale de Belgique and the Banque de Bruxelles) which together dominated the coal and steel industries of Belgium. It was forged as a result of the crisis precipitated by the British decisions of September 1931 to devalue the Pound by 30 percent and of the following February to impose a 33-1/3 percent ad valorem tariff on steel imports. Belgium, traditionally a free-trader, had responded to the onset of Depression by cutting steel export prices by 50 percent, a move which, while eliminating profitability, made possible an increase in its share of world exports from 9.8 percent in 1929 to 11.5 percent in 1931. It offered the additional advantage of maintaining demand for high-cost

Belgian coking coal. The British shift to protection cut Belgian steel off from the market which previously had absorbed one-third of total exports, caused the financial collapse of a number of independent foundries, jeopardized the future of the mines, resulted in massive coal and steel dumping on the French and German markets, and left the holding companies little choice but eventually to enter negotiations with the Franco-German bloc for a new international steel cartel.<sup>12</sup> The Belgians in fact launched the initiatives which resulted in the formation of the "second" International Steel Cartel in February 1933.

The decision to join the entente, it is clear in retrospect, transformed Belgium into an economic dependency of the Reich. The IRG agreement entailed a prospective decrease over the long-run in steel exports, and the share of the country in 1938 world exports was in fact only 2.9 percent as opposed to 4.2 percent in 1930. Demand for Belgian coal shrank accordingly.<sup>13</sup> The holding companies therefore counted increasingly on support from the Reich to improve the admittedly difficult Belgian situation. Ruhr steel, always at their request, administered frequent "brow-beatings" to recalcitrant independent foundries, threatening at times to undercut them in specialized export markets and at others intervening in complicated quota disputes within "Cosibel."<sup>14</sup> As for Belgian coal, its survival came to depend on the restraint of competition from the Ruhr, toleration by IRG of occasional "excessive" steel exports, and complicated arrangements linking the

sale of Ruhr bunker coal through Antwerp to transport in Belgian bottoms.<sup>15</sup> These arrangements, then, tied Belgium inextricably into the heavy industry "community of interest" in Western Europe.

The third bond linked Great Britain to the "Continental Group." It grew out of a crisis deliberately provoked by a March 1935 increase in the British steel tariff to 50 percent. The immediate purpose behind it was to force the producers of Belgium, France and Germany---all major exporters to Britain ---to enter negotiations leading to British entry into the international steel cartel. Here the National Government was pursuing its long-term strategy of promoting "industrial self-government" through international agreements.<sup>16</sup> Negotiations were in fact swiftly concluded. The British demand for an export quota occasioned little controversy. More importantly, the British ceded an annual import quota of 525,000-670,000 tons to the Continent, the distribution of which, however, was tied to the machinery of the newly-formed British Iron and Steel Federations. The tariff increase was then repealed.<sup>17</sup>

The achievements of the National Government's strategy, though few, sufficed to sustain it. The 1932 tariff which, it was hoped, would provide a "breathing space" permitting the steel industry to modernize, did encourage mergers. Thanks to interventions by the Bank of England, 60 percent of steel production had been concentrated into vertical combines. By 1934 production was running at 1929 levels. Costs and prices,

however, continued to increase.<sup>18</sup> Affiliation with IRG after 1935 did not significantly change this situation. The British nonetheless took the lead in the negotiations which led to U.S. affiliation with the international steel cartel and initiated the discussions which led to the wider agreements in coke and coal.<sup>19</sup> And it was in Britain, of course, where Economic Appeasement was first raised to the level of foreign policy.

The "community of interest" in the heavy industry of Western Europe was, then, a fact of life after 1933. The governments of the Reich, France, and Great Britain (not to mention Belgium) could either ignore it at their own peril or use it for their own purposes. They could not, however, override it. What was in fact the relationship between it and the foreign policies of the Great Powers? The matter requires much closer examination than it has yet received. Historians and public alike have accepted with near-unanimity the crude judgment that the international heavy industry cartels provided Hitler the means to exercise a sort of dictatorship over world steel production.<sup>20</sup> While it is true that their existence proved beneficial to the Reich, the relationship between them and Hitler's foreign policy is indirect and due also to the intermediation of France and Britain.

Hitler lacked any policy towards international ententes other than one of expediency. They were less desired than grudgingly tolerated. The Party was traditionally hostile to cartels of any sort, which its spokesmen denounced in principle

as agencies of irresponsible capitalist power. Initial threats from the regime to abolish them diminished, however, as they demonstrated their usefulness, first, as instruments of recovery policy and then of rearmament. In July 1933 the Reich published a decree, applied to tobacco and cement in early 1934, allowing compulsory cartelization where necessary to prevent unemployment.<sup>21</sup> With the creation of Wirtschaftsgruppen as official organs of "industrial self-government," cartelization was extended to those branches of industry where it did not already exist. Cartels and Wirtschaftsgruppen together thereafter took on the role of policy-administration within the armament economy, determining the distribution of raw material and foreign exchange and, to an extent, coordinating production as well.

The Reich's critical shortage of foreign exchange after 1933, which was aggravated by the decision to re-arm, left it with no choice but to work through the framework of agreements anchored in the international steel cartel.<sup>22</sup> The Reich enjoyed a trade and payments surplus in Western Europe thanks largely to the annual export there of about 20 million tons of coal. Without it the Reich would have been deprived of the raw materials required by the rearmament effort. To maintain this trade, the steel industries of Western Europe had, in a word, to be provided with adequate operating levels. It is apparently in part for this reason that the regime never pressured the Ruhr to demand an increase in the German export quota. In any case, once the rearmament boom had begun, steel



and coal shortages were felt on the domestic economy, thus reducing official pressure to export either commodity.

The leaders of Ruhr heavy industry, while never "disloyal" to the regime, cooperated on the whole unenthusiastically. The chief German representative to the IRG, Ernst Poensgen, overcame the initial opposition of the majority of the steel industry to joining the IRG with the argument that the only alternative to membership was a high steel tariff which would put the industry at the mercy of the regime.<sup>24</sup> Conflict between the two parties later broke out, of course, over the refusal of the industry to increase its consumption of low-grade domestic ore---something that would have wrought havoc with its cost structure---and was intensified by the decision to construct Reichswerke Hermann Göring, a regime-subsidized enterprise which broke the Ruhr steel-producing monopoly.<sup>25</sup> After the onset of full employment in 1937, repeated disagreements over delivery priorities perpetuated the ill-feelings. The Ruhr found itself often being ordered to step up domestic sales of steel and coal, as well as those to politically-preferred foreign buyers such as Italy. It therefore had to sacrifice, forfeit, or hand over traditional customers such as, for instance, ARBED of Luxemburg, the biggest single foreign purchaser of coking coal.<sup>26</sup> Within the international cartels it made sense, then, for the Ruhr to act as Honest Broker. And so it did. It accepted a very modest initial quota in the coal and coke conventions. In

addition, it effectively dealt out portions of its IRG quota with a view to increasing its capital of goodwill.<sup>27</sup> To those privy to international business negotiations, German behavior thus presented itself in the guise of a paradox: as the aggressiveness of Hitler's foreign policy increased, the Ruhr became more conciliatory.

The National Government in Great Britain was, as Berndt-Jürgen Wendt has demonstrated in exhaustive detail, the main progenitor of the attempt to build a diplomatic settlement with the Reich on the structure of international cartel agreements.<sup>28</sup> British affiliation with the IRG set a precedent: it was followed by the conclusion of the Anglo-German naval agreement of 18 June 1935. Successful conclusion of the negotiations in coal, it was hoped in the post-Munich days, would lead to a still broader settlement in industry, and even between the two nations as well.

The Anglo-German Trade and Payments Convention of 1 November 1934, which remained in effect until the outbreak of war, provided the framework for settlement of coal export issues. It assigned the Reich, which considered it "the best and most favorable of all clearing agreements," with a trade surplus in the proportion of 100:55.<sup>29</sup> Here, then, was powerful incentive for Germany to increase exports from Great Britain. Coal was simply the most convenient product to accept. In early 1932, the Reich imposed an import quota of 100,000 tons per month on British coal to stave off the

flood of the commodity through North Sea ports which otherwise would have resulted from the Pound devaluation.<sup>30</sup> Once the payments agreement had taken effect, however, the Reich exercised pressure on the Rheinischwestfälischeskohlen-syndikat not to compete in the Hamburg-Bremen market, and imports from Britain were allowed to increase to 193,118 tons per month by 1937.<sup>31</sup> The share of the Reich in total British coal exports increased from 6.4 percent to 8.0 percent in the same years.

The coal and coke negotiations, running intermittently for over four years, faced an obstacle in the form of British weakness which the Ruhr, however, overcame thanks to judicious use of its increasing strength. Britain first initiated discussions for a general coal-coke convention in March 1935. They continued for the duration of the year.<sup>32</sup> The Central Council, set up by the Coal Mines Act of 1930, was, however, too divided to act on behalf of the entire British industry. The Ruhr therefore favored including the other main Continental exporters (Belgium, the Netherlands, and Poland) in any eventual agreement. There was confusion, finally, as to whether the convention should extend to coke as well as coal and include maritime as well as continental markets.<sup>33</sup>

An improvement in the Ruhr's situation paved the way to the conclusion of the Anglo-German coke convention of July 1936. The settlement rested in particular on the Ruhr providing Britain compensation in the hitherto competitive Baltic-Scandinavian market for the 12 percent of its total exports

market in Italy lost as a result of the "Ethiopian embargo." The Anglo-Germans agreed that of total European coal exports of 11.4 million tons the Reich should receive a quota of 5.6 million tons (48.4 percent) and Great Britain of 2.4 million tons (20.88 percent). The inclusion of the other three exporters was frustrated temporarily by chaotic conditions in Belgium, which had experienced labor strife, prospective regulation at the hands of a royal commission, and, finally, a short-lived boom due to the devaluation in March, 1935 of the Belga and labor problems at the French mines. On 11 June 1937, however, they also entered the convention.<sup>34</sup>

On 7 November 1938 Sir Frederick Leith-Ross proposed to a German trade mission returning from Dublin a resumption of the coal talks, which had been proceeding in desultory fashion through most of the year. His has all the earmarks of a well-laid plan. The Germans were presented with a detailed memorandum outlining a bargaining position. Total British coal sales, it was noted, had dropped by 20 percent since 1933 while those of the Reich had increased by a third, thus shifting Anglo-German export ratios from 5:3 to 1:1 between that date and 1937. The memorandum holds a secret subsidy responsible for the absolute and relative decreases in German coal prices and proposes formation of a joint cartel as the only alternative to a "production tax on the use of coal." The Germans are also reminded that they stand to benefit more from a 15-20 percent price increase to British levels than would be lost by

reduced sales.<sup>35</sup> Thanks to the "restraining influence exercised by the Board of Trade on the representatives of the British industry," negotiations proceeded past unusual disagreements concerning the comparability of statistics and basis years for quotas; agreement was reached on 28 January 1939, Great Britain receiving a quota of 46.27 percent, the Reich, 32.08 percent, and the rest left to be divided between the three secondary exporters.<sup>36</sup>

To the "economic appeasers" at the Board of Trade and Foreign Office, the chief value of the coal agreement was as a springboard to an interindustry pact between Britain and the Reich. "The coal trade talks," according to the President of the Board of Trade Oliver Stanley, "have been valuable precursors to the wider talks now to start. From them we can draw many lessons and much encouragement... It might be possible to look back upon [their] conclusion as a turning point, not only in the methods of Anglo-German industrial relations, but also in the history and hopes of the world."<sup>37</sup> The famous "Düsseldorf Agreement" concluded between the Federation of British Industry and Reichsgruppe Industrie on 16 March 1939 reflected these exalted ambitions. A joint public statement noted agreement on twelve points. Some were pedestrian: existing cooperative efforts should be built on, exports should raise living standards and be profitable, and destructive competition should be ended. For the rest, the agreement foresaw nothing less than the creation of a world

economic partnership of the two countries. The National Government's long-standing policy of encouraging domestic cartelization along German lines was affirmed. Both parties concurred that, as with the coke and coal understandings, outsiders were to be invited to enter only after Anglo-German agreement had been reached. Individual branches of industry were, moreover, directed to begin negotiations immediately with a view to forming bilateral cartels. Finally, the industry associations of both nations promised to invoke the powers of their respective governments, jointly if necessary, to coerce into compliance the industries of third countries.<sup>38</sup> With this agreement, "economic appeasement" reached its high-water mark. Once the public had registered reaction to the 15 of March occupation of Prague it was no longer politic for the government to speak openly about the desirability of reaching mutually profitable deals of any kind with the Hitler regime.

In France, public animosity towards Germany simply ruled out the adoption of "economic appeasement" as national policy until, that is, the diplomatic system created by the Versailles treaty had visibly begun to collapse. From 1933 to 1936, Franco-German trade relations were allowed to deteriorate alarmingly. Change in economic policy towards Germany, when it came in early 1937, was presented as mere "normalization" when, in fact, behind it was the hope, cultivated by the Comité des Forges, that mutual rearmament would bring

reciprocal benefits to both nations. Under Foreign Minister George Bonnet, finally, "economic appeasement" became official French foreign policy. For France it was even more of an absurdity than for Britain.

"L'equilibre par le bas" was, according to Pierre Mendès-France, the operative principle in Franco-German economic relations after the collapse of the 1927 trade treaty in 1932.<sup>39</sup> German foreign exchange control, introduced that year, limited the sale of French agricultural goods on German markets. The French "mathematical clause," which followed, restricted German imports by product to fixed percentages of 1929. The 28 July 1934 trade agreement brought a degree of order in the relations between the two, but at a large cost to French export interests. It provided for a large German trade surplus, 15.75 percent of which was to service the Dawes and Young debt.<sup>40</sup> An unexpected increase in German purchases soon threatened, however, to dry up the Reich's Franc balance at the "Office franco-allemand des paiements commerciaux." In August 1935 the French government restricted exports to the Reich, first to 85 percent of 1935 and then further until such a time as Germany had "worked up" its payments surplus. By December 1936 the Franc balance had been restored, thanks in large part to a reduction of French exports from 189 million RM in 1932 to 98 million RM in 1936. The stage was set for a new beginning.<sup>41</sup>

Rearmament made it desirable for France, and arguably necessary, to revive the pre-World War I Ruhr coke-Lorraine ore traffic. The Ruhr normally supplied four-fifths of the coking coal requirements of the foundries of eastern France. Alternative suppliers were uncompetitive in the area and could only through strenuous exertions have met the anticipated increase in demand. The French, moreover, seem to have had doubts about Britain's reliability, not least of all because of her refusal to consult during the negotiations for the coal and coke understandings with the Reich.<sup>42</sup>

The relationship between Ruhr and Lorraine, on the other hand, remained close. The two encountered little difficulty, for instance, in resolving the complicated issues which resulted from the return of the Saar to the German customs area on 12 February 1935. The Ruhr, first of all, agreed to absorb the 450,000 tons of steel per year which the Saar normally sold on the French market, and, in return, received a slight increase from the IRG in its export quota. Thus the French did not have to increase steel tariffs, an act which would have had serious adverse consequences for the Laurent rolling mills in Lorraine, which were normally supplied by their foundries in Dillingen (Saar). As for coal, agreement was reached for German purchase of the French state-owned Saar mines by means of payment in kind. The transfers were handled through the special "Sicap" arrangement. By 1936 coal, most of it from the Saar, was in fact the only important German



export commodity to France.<sup>43</sup>

Negotiations for a new coke-ore agreement, conducted privately between representatives of French and German heavy industry, began in March 1937.<sup>44</sup> German industry in fact stood to gain comparatively little from it. The Ruhr had little coal to sell and, in addition, was quite satisfied with its supply relationship with Sweden which, it believed, could be developed as required by rising demand. Schacht, however, seized on the initiative as opening a new source of foreign exchange.<sup>45</sup> The ore-coke agreement arrived at called, first, for an increase in German iron-ore imports from the 1935 monthly average of 490,000 to 600,000, it being understood that amounts could be raised once "labor difficulties" had been solved. More significantly, German coke deliveries to France were to be immediately stepped up from a monthly rate of 116,000 tons per month to 275,000 tons. It was understood, finally, that "The French have agreed to fill all of their coke import requirements from Germany."<sup>46</sup>

The coke-ore agreement was the nucleus of the 10 July 1937 trade treaty signed with fanfare by Reichsbankpräsident Schacht and French Foreign Minister Delbos at the Paris Exposition. The French business press, indeed the public, received it enthusiastically.<sup>47</sup> The men most directly involved in the negotiations heralded it as the dawn of a new era in Franco-German relations. The German embassy telegraphed Berlin that "Handelsminister [Chapsal] hielt sehr beachtliche Tischrede.

Nach Begrüssung der Gäste betonte er zunächst grosse Bedeutung Vertragswerks, die weit über solche gewöhnlichen Warenabkommens hinausgehe und als Ganges eine glückliche Liquidierung zahlreicher anderer zwischen beiden Ländern offener Fragen mit sich bringe. Er selbst und französische Regierung seien glücklich über das Erreichte, das geeignet sei, die Beziehungen zwischen beiden Ländern zu normalisieren und eine weitere Zusammenarbeit im friedlichen Einvernehmen zu gewährleisten, Abschluss Vertragswerks stellte somit in den Augen französischer Regierung gewissermassen einen feierlichen Augenblick dar und sei geeignet, eine neue Ära des Vertrauens und der Annäherung in den Beziehungen der beiden Nationem einzuleiten. Er sei sicher, dass diese Gefühl französischer Regierung von sämtlichen Französen geteilt würden, die in den Beziehungen zu Deutschland nichts sehnlichster Wünschten als eine 'atmosphère plus calme, plus apaisée et amicale.' Das Vertragswerk stelle somit einen Ausgangspunkt dar, bei dem man nicht Halt machen dürfe."<sup>48</sup> This was not the mere expression of pious sentiments. To insure the proper functioning of the coke-ore exchange, the French Government extended the work week at the mines beyond forty hours, encouraged management to recruit several thousand additional workers---foreigners if necessary, and even directed French steel to provision itself to the maximum extent possible from the Ruhr mines. In January 1938 it specifically disallowed the placement of a large coke order in Belgium.<sup>49</sup>

French post-Munich "economic appeasement" reached the same fantastic heights as in Britain. Acting at the direction of Foreign Minister Bonnet, Count de la Baume (Head of the Commercial Relations Section at the Quai d'Orsay) entered negotiations with a German trade delegation on 7 December 1938.<sup>50</sup> The most important of the many French proposals made over the next three months fall under three headings. They involved, first, a trade increase. In exchange for a German readiness to accept increased agricultural exports, France promised to import 50 million Francs worth of synthetic nitrogen and to provide German firms with public contracts (machine tools, diverse machinery, scientific instruments, etc.) in the value of 95 million Francs. The proposals also involved the formation of joint ventures, particularly within the Empire. De la Baume suggested "in a general way" harbor improvements in South America, bridge and road building in the Balkans, and railway construction in Africa. A Franco-German consortium, it was suggested, should be set up to handle repair and recovery work in Franco Spain. A note of 11 March 1939 specifies with regard to the Empire: the opening of the Conakry mine for mutual exploitation, a joint paper manufacturing project, and the expansion of the Moroccan manganese mines to meet rising Reich demand. Other collaborative efforts are to include the conclusion of a contract between Société française de Chatillon-Commentry and Vereinigte Stahlwerke to barter 10 million francs of machine tools for the ore mine at Halouze (Orne) against

delivery over a two-year period of one-half of planned production of 300,000 tons per year. The third set of proposals involved the immediate "adaptation aux circonstances présentes des ententes industrielles existantes et l'extension des ententes a des nouvelles catégories de production."<sup>51</sup> Planning for discussions between the Confederation Générale du Patronat and the Chambre de Commerce de Paris on the one hand and Reichsgruppe Industrie on the other were to begin at once for the conclusion of a general inter-industry pact. "Ces diverses propositions," let it be added, "ne constituent qu'une première étape dans la voie d'échanges plus actifs entre les deux pays. Mais la réalisation de ce programme initial pourra servir d'exemple dans l'avenir pour la conclusion d'affaires nouvelles. Le Gouvernement français espère que les négociations que vont s'ouvrir, tant entre les services officiels des deux pays qu'entre les industriels, sous le contrôle gouvernementale, permettront d'établir des bases d'une vast collaboration favorable à l'économie des deux pays."<sup>52</sup> On 22 February 1939, a "Centre Economique-Franco Allemand" was founded. It had "...zur Aufgabe, die deutsch-französischen Wirtschaftsbeziehungen mit allen Mitteln praktisch zu fördern, zu zentralisieren und auszuweiten... Das 'Centre' wird gegründet von namhaften Parlamentariern und den Präsident der grössten französischen Handelskammern."<sup>53</sup>

These ambitions must be seen against the dismal failure in the recovery of Franco-German trade. The industrialists of

France and Germany were, in effect, being asked to "divide the world" at a time when French exports to the Reich had fallen to one-quarter of 1929 levels (641.99 million RM to 155.68 million RM), and German exports to France to one-third (934.54 million to 313.43 million RM). Total French exports to the Reich, which rose to 155 million RM in 1937, actually fell to 141 million RM the following year, below the previous low of 281 million RM in 1934.<sup>54</sup> The results of the coke-ore exchange were most disappointing of all. German deliveries of coke, targeted at 275,000 tons per month, fell to 113,000 tons per month in the first third of 1938 and even further, to 90,000 tons per month, in the same period a year later. French ore deliveries to the Reich fell to a rate of 416,000 tons per month in 1938.<sup>55</sup>

These results provided little basis indeed upon which to build an economic partnership with the Reich. The French initiatives were in fact notably less successful than the British. Surveys of Reichsgruppe Industrie revealed, if anything, a general disinclination to forming industrial ententes with partners in France. One file note divided German industry policy towards the matter into three categories. Ententes, it specified, existed already in steel (including the products covered by the "sectional" subsidiaries of IRG), safety pins, and enameled cast iron, in the electrical industry, and in buttons. Other industries, secondly, sought closer agreement with French partners. The refiners of non-ferrous metals.

wanted to include the French in existing conventions with the Belgians and Dutch. The electrical industry wanted more specific agreements with regard to third country markets; the machine industry, participation in turnkey projects, specifically in the colonies; the railroad car industry, the right to sell to the SNCF. The manufacturers of wood-working power tools sought to break the Paris monopoly of French competitors; the fur industry, to gain more finishing operations from French tanners; the ceramic industry, to reach agreement regarding third country markets. The hand tool industry hoped to reach price agreements with the "Syndicat National des fabricants d'outils de Métier," as did the tin-box packing industry, and the founders of cast fittings. A third group of producers expressed "virtually no interest" or none whatsoever in the formation of ententes. It included the textile industry, the garment industry, the iron war group, the steel and plate war group, paper manufacturers, and the metal wares group.<sup>56</sup> Koppen, the Reichsgruppe official in charge of negotiating with the French, therefore concluded in a letter of 2 March 1939 that "trotz Befragung der gesamten industriellen Organisation keine nennenswerte Wünsche für Verhandlungen mit der französische Industrie zugegangen sind. Wo deutscherseits ein Bedürfniss für Marktabreden bestand, sind diese bereits getroffen worden und haben sich im allgemeinen gut bewährt. Allzuviel Material werden wir also für deutsch-französische Industriebesprechungen kaum besteuern können."<sup>57</sup>

He therefore handled the matter in dilatory fashion until the possibility of a second "Düsseldorf Agreement" died of its own inanition.

The success of the Anglo-French efforts to broaden the "communities of interest" between their national industries and that of the Reich required a much more radical initiative than any apparently contemplated by either government, involving namely the revision of the bilateral trade agreements in effect with the Reich. They had been set up with a view primarily to protecting the interests of the Reich's creditors. Frank Tiark of the City branch of the Schroeder bank, who served as head of the "Short-term Creditor Committee," deserves primary credit as architect of the trade imbalance provisions built into the 1 November 1934 Anglo-German trade agreement. The French, for their part, were extremely reluctant either to allow the Reich to earn more francs than necessary to service their debt-holders or to maintain large Reichsmark balances of their own. Thus the Vertragslosenzustand of 1935-1936 in which the government of France restrained its exporters in order to permit the re-accumulation of a German Franc surplus. The July 1937 agreement "mortgaged" 700-800 million Francs of a targeted German trade surplus of 1500 million Francs for service of the Dawes and Young debt. An increase in the balance would, in other words, put additional foreign exchange in German hands, a decrease, threaten the interests of French creditors.

The paralyzing effects of these agreements on trade were recognized in a general way. Lip service was paid, for instance, to the "Van Zeeland Plan," a vague set of prescriptions for harmonizing the trade practices of "totalitarian" economies with the supposedly "free" ones of the democracies. French and British trade negotiators did almost nothing, however, to remedy the specific deficiencies of the agreements in effect with the Reich, even as their ministries were seeking to create inter-industry pacts. British trade officials, first of all, gave no satisfaction to the large section of the manufacturing industry which voiced the complaint that because of the trade imbalance provisions (and the preferred position of coal) they faced increased competition on the domestic market from the Reich while, at the same time, being forbidden to export there. Demands from British manufacturers that the "Düsseldorf Agreement" be predicated on German re-consideration of import quotas fell on deaf ears. Their eventual loyalty to it must therefore be put into question.<sup>58</sup>

French officials, at the same time, stood by with apparent helplessness as the rigidities built into the July 1937 agreement brought on a near-collapse in commercial relations with the Reich. The reaction is puzzling, to say the least. The fall in Franco-German trade cannot be attributed simply to the declining French production index because, in 1937-1938, overall French foreign trade increased.<sup>59</sup> Nor can it be argued that it was due to patriotic considerations, inasmuch



as the maintenance of the ore-coke trade was of considerably greater strategic value to France than the Reich. Nor did Germany refuse to export coke which, though in short supply, became an actual bottleneck to trade only in Spring 1939.<sup>60</sup> As it was, a fall in French steel production and ore output occurred in Fall 1937, allegedly as a result of labor difficulties. It resulted in an immediate decline in the French demand for coke, a reduction in German exports of the product, to France, and a threat to the German Franc balance. Once again, the French government found itself in the position of restraining exports, even in the face of opposition from both the management and employees of the ore mines.<sup>61</sup> Until June 1939 it gave scant consideration to available measures to stimulate a trade increase: lowering the interest rates paid on Dawes and Young coupons or underwriting a portion of the debt (thus reducing the need for a German trade surplus); stockpiling coke and coal for its own account in the interests of rearmament; or simply subsidizing ore exports by accepting payment in overvalued Reichsmarks. By then, however, trade had decreased to such an extent as to threaten unhinging for the first time since 1926 the close relations between Lorraine and Ruhr. The July 1939 negotiations for a renewal of the bilateral trade treaty simply fell apart. And the French delegate, de Monzie, departed to the U.S. on a mission to purchase the amounts of coal which the Reich, by abrogating an agreement which permitted the De Wendel Ruhr mines to supply to its

French foundries outside the framework of the bilateral trade treaty, had refused to deliver.<sup>62</sup>

"Economic appeasement" is, to say the very least, difficult to defend as a policy. It rested on a misunderstanding of the relationship between German industry and Hitler's foreign policy, lacked public support, involved conflict with existing diplomatic commitments, was lamed by internal contradictions and pursued too late---then only halfheartedly. It could only have reinforced Hitler's belief in the spinelessness of the Anglo-French leadership.

The ideas underlying it nonetheless lived on. Sir Samuel Beale, Chairman of the Board at Guest, Keen, and Nettlefolds, Ltd., and chief business representative to the Board of Trade's Export Council, continued throughout the war to defend the "Düsseldorf Agreement," arguing that "in the present state of the world's technical and political development, international competition on the old basis is uneconomic." He felt that "...[American] social and political evolution is perhaps twenty or thirty years behind that of Great Britain." "A greater degree of economic centralism will," he added, "gradually develop in the U.S. sooner or later, [which] is inevitable and healthy...and will, let it be hoped, be rapid enough in the sphere of foreign trade to permit the organization of post war international commerce in industrial goods [into cartels]."<sup>63</sup> In Benelux, but above all in France, defeat appeared as a blessing in disguise to technocratic visionaries such as Bichelonne, Pucheu, Lehideux, and the men associated

with the Banque Worms.<sup>64</sup> They welcomed the opportunity to Germanize the structures of the French economy, expand the apparatus of "industrial self-government" to include responsibility for raw materials allocation, "rationalization" and long-term planning, and to enlist the Reich in setting up European multinational enterprises in the fields of chemicals, automobile manufacture, and steel production. Responsibility for the conduct of relations with the industry of occupied Western Europe rested by and large with German industry, and was successful to the extent that strong pre-war cartel ties existed and, less often, where new ones could be developed.<sup>65</sup> It is true that the war might have lasted longer had the Reich taken better advantage of the offers for cooperation made by the business and civil service leaders in France, Belgium, and the Netherlands. Of perhaps still greater interest, however, is the fact that in occupied Europe continuity of business tradition was preserved. The pre-war cartels in Western European heavy industry survived even the aftermath of German defeat. They emerged from it re-baptised as the European Coal and Steel Community.<sup>66</sup> The formation of the Common Market, then, can be regarded as a distant echo of the hopes expressed by the "economic appeasers" of the post-Munich period: that the "community of interest" in West European coal and steel could be broadened to include industry as a whole.

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