DOING BUSINESS WITH THE NAZIS

Britain's Economic and Financial Relations with Germany 1931–1939

Neil Forbes

with a Foreword by Richard Overy

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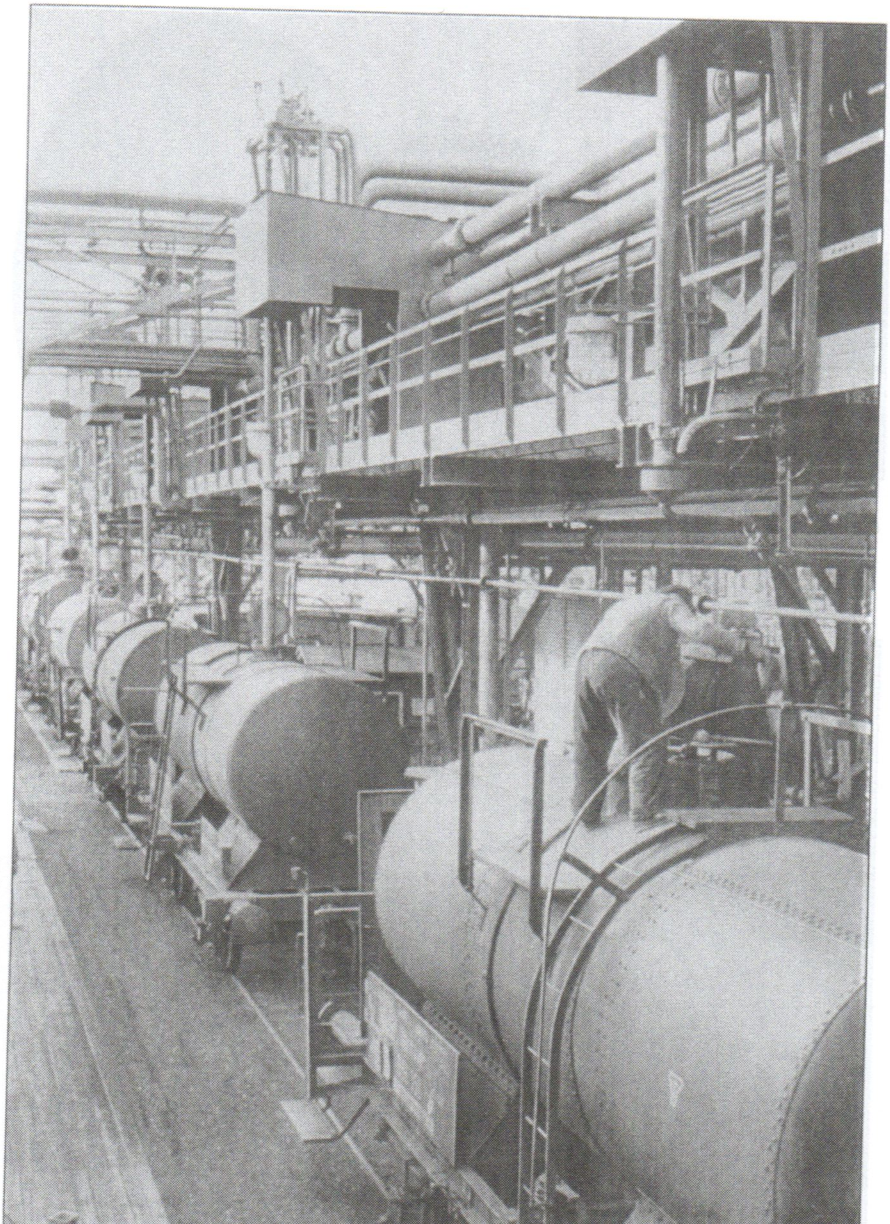

17. Wagons being filled with *Leuna-Benzin,* the synthetic oil produced by IG Farbenindustrie in partnership with Standard Oil and Shell.
(Photo: AKG London)

economic policies to thank, rather than the strategic foresight of their own government, for creating such shortages.

Supplying oil: the Anglo-Persian Oil Company

As with the harnessing of coal in the nineteenth century, control over the sources and distribution of mineral oil dominated economic life in the twentieth. Among raw materials of strategic importance, oil had assumed the place of *facile princeps* even before the First World War. Without a powerful industrial base the war-making potential of the state was limited. Coal remained a vital factor of production. But the security of oil supplies was of direct military significance and therefore a first consideration for military and other strategic planners. Yet, in line with Britain's general tardiness in preparing for war, detailed oil planning began only with the expansion of the relevant administrative machinery from 1936.[62]

In the debate which took place in Britain in the 1930s over supplying raw materials to Nazi Germany, no commodity or natural resource commanded more world-wide interest than mineral oil. In planning to create critical shortages in the event of war, there was more optimism in Britain over the case of liquid fuels than over any other of Germany's deficiency materials.[63] Both countries were able to exploit vast domestic coal deposits but both were dependent upon foreign sources for oil. Britain, however, enjoyed a massive advantage: the state was the majority shareholder in the Anglo-Persian Oil Company (APOC), one of the world's oil majors in production and distribution.

Anglo-Persian was one of the three European market leaders which supplied Germany with the bulk of her oil imports; the other two were Standard Oil of New Jersey and Royal Dutch Shell. Standard's subsidiary was the Hamburg-based Deutsch-Amerikanische Petroleum Gesellschaft which held a 28 per cent share of the civilian market. Shell's German subsidiary was the Rhenania-Ossag Mineralölwerke AG, with 22 per cent of the market. Nazi rearmament and *Motorisierungspolitik* ensured that the production of petroleum would become the most dynamic element of the Third Reich's energy sector. A rapid increase in the production, refining and distribution of petroleum products was required. At the same time, the oil majors were put under considerable pressure and trading conditions became extremely difficult. For Hitler was also determined to end the dominance of the Anglo-American multinationals in German fuel markets.[64] The development of synthetic fuel, which played a key role in the drive towards autarky, offered a lever. Germany was already advanced in the extraction of oil from coal: IG Farbenindustrie operated a large hydrogenation plant at Leuna, near to Leipzig, and had entered into licensing agreements with Standard during the 1920s.[65] By the time Hitler took power the Leuna plant had demonstrated its capacity to produce about 100,000 tons of synthetic fuel annually. But the cost per litre worked out at about triple the world price for gasoline.[66]

Anglo-Persian's German subsidiary was Olex – the Deutsche Benzin und Petroleum Verkaufsgesellschaft – which held a market share of about 17 per cent. APOC acquired a 40 per cent holding in 1926 and obtained complete control in July 1931. Olex did not trade without difficulty in the Weimar period. In 1932, the company was compelled to negotiate a kind of barter arrangement. Conditions under National Socialism were not expected to be any easier. Nevertheless, Anglo-Persian had no intention of withdrawing from the German market in 1933. Although past performance was poor and forecasts were gloomy, these problems were seen as common to the oil industry as a whole and the market was held to have considerable long-term potential.[67]

In July 1934 Freddie Morris, APOC's deputy director in charge of continental affairs, received a report from Dr Krauss, chairman of Olex. Krauss had been summoned to the RWM, along with representatives from the other two oil majors, and presented with the outline of a scheme. In return for the provision of all current requirements and a large reserve, all on credit with little prospect of much foreign currency payment for five years, German officials indicated that some undertaking would be given to limit production of synthetic oil and to maintain the market for the oil companies. Assurances were given that the idea of complete autarky in oil products was not in any way the policy of the Nazi Party because of the high costs of domestic production.[68] Shell and APOC already had frozen debts amounting to £845,000; the viability of their German investments was now also thrown into question. By the autumn of 1934 the biggest commercial debt owed to Britain was that held by APOC of more than £500,000 for petroleum supplies.[69]

Anglo-Persian, predicting that the German proposition would hardly go down well in London, was in no hurry to explain it to the Foreign Office.[70] As they played an important role in industrial intelligence, APOC executives and other British oil companies were in a potentially embarrassing position. Major Desmond Morton, head of the IIC, made discreet approaches to the companies to derive accurate information on the location and extent of German underground storage tanks and the overall supply situation.[71] As soon as he was informed, Vansittart certainly became extremely agitated. He called on APOC to organize a united front of the companies to reject the plan and he promised that the Foreign Office would similarly organize a diplomatic front without caring whether offence were caused. This involved asking the Americans to put pressure on Standard Oil, Britain exerting influence over Sir Henri Deterding of Shell, and Vansittart himself approaching the Russian Ambassador. Vansittart dismissed the twin-headed threat of German synthetic production and the separate throwing over of APOC.[72] But he seemed to be unaware that the scheme originated in a meeting between Deterding and Feder, State Secretary at the RWM, and that the head of Rhenania (the Shell subsidiary) had already been acting as an adviser to the Reich government.

Deterding was known to be an admirer of the National Socialists. Indeed, he retired from Shell in 1936 after the London directors became so alarmed at his activities that they approached the British government for help.[73] With the coming of war the search began for guilty men; Sir Henri, who had just died, was named as one of the industrialists suspected of facilitating Hitler's rise to power through financial support.[74] The American consul in Hamburg reported in 1934 that Deterding, because of his fear of the Soviet Union, was favourably inclined toward the German government as a necessary safeguard against the spread of communistic ideas in western Europe. The consul added:

> Sir Henri had contributed fairly large sums to the National Socialist treasury before the advent of the Party into power and since Herr Hitler's assumption of the Chancellorship; he had offered to supply the Reich with all their oil requirements in return for payment in blocked reichsmarks ...

Deterding supported the Nazis in the belief that the alternative would be the downfall of the Reich and a violent swing to the left.

A further consular report of early 1935 claimed that Shell was anxious to obtain a monopoly in Germany. There were also rumours that the company had extended a large loan to the German government.[75]

The lack of solidarity among the companies was a worry for Anglo-Persian. But when the British government signalled its whole-hearted support for rejection of the scheme, with its proposed contracts for a special reserve, APOC became more determined to act – alone if necessary. The company decided that no more than three months' stock would be held. In addition, they resolved to insist upon payment of 90 per cent of the price (cost, insurance, freight) in foreign currencies of the oil delivered to Olex (the latter taking 10 per cent commission). Finally, no contract would be entered into which exceeded two years.[76]

But the resolve lasted just a few days. The oil companies indicated that they would probably continue to supply without getting paid. In Anglo-Persian's judgement, prudence was called for when each of the companies had large amounts of capital locked up in Germany and their businesses were threatened with closure. Of course, some in the oil business had an eye to future profits and were looking to expand rather than contract. Rhenania had taken the commercial decision to invest some £17m in immovable assets. Germany's requirements for oil supplies, in line with the development in aviation and especially motor spirit and diesel oil for the motorization programme, were projected to rise sharply. A comparison of motor traffic utilization undertaken by Shell revealed the scope for expansion in the German market.[77]

TABLE 5: ESTIMATED PETROLEUM CONSUMPTION IN 1933

Population (millions)		*Tons*
UK	48	3,960,000
France	41	2,500,000
Germany	66	1,500,000

Source: T 160 602/12750/09, memo, by the Asiatic Petroleum Company, 30 July 1934; 'Asiatic' was the old name for Shell's trading company; British officials continued with the usage.

Deterding reported that the Board of Shell, at a meeting in The Hague, had agreed to accept no proposals that were objectionable to the British government. Even so, cash payment for oil deliveries was to be postponed indefinitely. Leith-Ross found this position 'lamentably weak'. Vansittart despaired that, just as empty sacks could not be made to stand upright, government departments could do little if the companies did not have the stuff of resistance in them. The Treasury reasoned that once the companies began looking at the position from a commercial point of view it would be very difficult to change their minds in order to secure a political end. After all, the government directors of APOC were not supposed to interfere with the commercial administration of the company, although they had the right to veto the company's activities if they affected questions of foreign military policy.[78]

Representatives of IG Farben put forward an alternative proposal on behalf of the Reich authorities. The companies would supply oil products to the value of £4m for delivery over five years (with IG having the option to call for the whole delivery in two years), so that a reserve stock could be built up in Germany. With the arrival of each cargo, 10 per cent of the value (free on board) would be paid and the balance remitted in six-monthly instalments over the period of the five years. As an inducement to the oil majors there was the promise of a cartel arrangement to govern selling conditions in the German market.

Anglo-Persian reminded the British government that it had an important distributing organization in Germany and confirmed how it was very anxious to avoid the loss of goodwill. Ministers were well aware that the strategic arguments had to be weighed carefully. In so doing, they found themselves caught between Charybdis and Scylla. Clearly, the position of the Third Reich became stronger in proportion to the level of oil reserves which were established. On the other hand, it was not in Britain's interests to push the Nazi government in the direction of either looking for alternative supply channels or increasing the exploitation of domestic resources. Germany's annual domestic production of natural petroleum was estimated to be 300,000 tons and the authorities were encouraging the discovery of further deposits through subsidies. Furthermore, the trend towards self-sufficiency already suggested a strengthening of the Third Reich's defence position – despite the fact that it implied a diversion of effort from other activities – and a weakening of Britain's strategically vital oil organization. There was a chance, therefore, that the long-term effects of demanding immediate cash payment for supplies would be negative. On 14 November 1934 the Cabinet accepted that there were no clear grounds of public policy on which APOC could be advised to reject the proposal.[79]

While Anglo-Persian, at least, did not carry this scheme through, the oil companies were subjected to continuous pressure to reach some agreement on supplies. The 1934 Payments Agreement stipulated that Germany should produce proof that out of the total foreign exchange allocation there was sufficient for the purchase of British goods in customary proportions. Yet, the oil companies continued to face problems in securing the necessary foreign exchange certificates (*Devisenbescheinigungen*). The German authorities sought to justify this restriction on the grounds that the products were not of British origin, even though it had been agreed previously that oil refined in Britain would count as such. At one point Anglo-Persian threatened to divert cargoes already bound for German ports if the certificates were not forthcoming. The problem had become so severe by the beginning of 1935 that Olex was on the point of shutting down.[80]

APOC knew, of course, that it would be unable to repatriate funds in the event of liquidation; the Reichsmarks would, of necessity, have to find their way to other forms of investment. While the book value of APOC's holding was not great, the capital assets, largely fixed, were extensive. They included 26 depots and 13 service stations on land owned by the company, and more than 200 depots (including aviation depots) and a further 140 service stations on leased land. It is hardly surprising that the management in Britain and Germany hoped that any closure of Olex would be temporary.[81]

Anglo-Persian acted on two fronts: Freddie Morris in London asked for diplomatic representations to be made and Dr Krauss paid a visit to Dr Helmuth Wohltat in Berlin. Wohltat was well known and respected in London for his business career which was concerned with the international trade in oils and fats. But he had recently entered the civil service and had been put in charge of the routine allocation of foreign currency to the several clearing houses (*Überwachungstellen*). Eventually, he became Göring's trade assistant and achieved notoriety for the talks which he held in London with British officials on the eve of war (see Chapter 7).

APOC did not compare favourably with the other oil majors from Germany's point of view. Following the Dutch-German Payments Agreement, Shell had been able to keep payments going between the subsidiary and the parent group by a process of re-exports and large barter transactions. Standard Oil had greatly facilitated its currency position by placing orders in Germany. Wohltat wanted to know why APOC, which had heavy requirements of technical equipment, could not do the same. When he said that he could not imagine that APOC would risk the value of its large German interests by a refusal to supply oil, Britannic House believed that its bluff was being called. The stakes were high for Germany too. Krauss asked the RWM not to lose sight of the far-reaching psychological effects on public opinion of a shut-down by Olex. It was calculated that 2,000 employees would have to look for other jobs. More importantly, 6,000 petrol-pump keepers would have to close their pumps which, Krauss warned, 'would be an all too visible symptom, even in the smallest towns and villages, of Germany's foreign currency and economic difficulties.'[82]

But Olex was far from confident that it would survive. Sir Henri Deterding, who had recently visited Berlin, was expected to take a conciliatory line over the supply of oil products to Germany in view of his past promises. Olex feared a further weakening of its negotiating position. Although APOC might claim that it had done much for German industry, it was becoming clear that Shell and Standard had done more. Olex wondered whether this might justify some relaxation in London's attitude. In view of the potential of the German market, the subsidiary believed that a great deal was at stake for itself and APOC.[83] However, Britannic House was in no mood for relaxation. Olex was told that it was entitled to secure supplies from elsewhere but only in so far as no loss occurred, otherwise London would have the right to object very strongly. As far as the investment of capital in Germany was concerned, APOC did not want to make new commitments given the conditions ruling in the country and while existing funds were being unfrozen. Morris stated: 'there is no likelihood that I can see of our changing our policy, which is "No cash, no oil".'[84]

The other two oil majors certainly did do more for the Third Reich than APOC. Standard Oil entered into a contract with IG (the exclusive purchasing agent in Germany for a number of vital products including oil and rubber) to sell the rising outputs of the Leuna plant. Shell reached a similar agreement in 1935. As a reinsurance against future competition from synthetic fuel, both these majors took a 25 per cent shareholding in IG's Deutsche

Gasolin AG. In strictly commercial terms this decision made sense. By 1939 IG's synthetics factories produced no less than one-half of the petroleum consumed in the Third Reich.[85] Indeed, the policy on autarky was beginning to take effect. German consumption of mineral oils increased by about 56 per cent between 1933 and 1936, and then by a further 24 per cent until 1939. But the proportion of consumption which was foreign-sourced fell from about 75 to just under 50 per cent between 1933 and 1939.[86]

In 1935 the Anglo-Persian was renamed the Anglo-Iranian Oil Company (AIOC). In the months which followed the British government and various industrial interests, particularly the colliery owners, sought to find out more about the developments taking place in German catalytic processes. It seemed as if it might be possible to produce synthetic fuel at costs much less than those achieved by ICI at its hydrogenation plant in Billingham in the north of England. In September 1936 Ruhrchemie AG was visited by W.H. Cadman (brother of AIOC's chairman) and a coal industry representative. Krupps, Mannesmann and Gutehoffnungshutte were the major shareholders in the German company. Unfortunately, the British visitors were not allowed a close inspection of the plant and the general lack of data meant that AIOC did not feel that it could make a decision on the viability of purchasing a licence. Thereafter it became apparent to AIOC that the industrial processes remained so uneconomic that there was no commercial case for the establishment of plants in Britain.[87] This indicates that the Third Reich had little to gain from the British petrochemical industry in the way of relevant scientific or technical expertise; rather, the question was whether it was worth paying for the technology to be transferred from Germany to Britain.

Olex continued to exist from hand to mouth for supplies and attempted to weather the storm by taking steps to cut down deliveries. By April 1936 the company was managing to do no more than keep its petrol pumps going. This represented just 50 per cent of normal trade. All capital and publicity expenditure was eliminated and Olex executives were forced to try to make up the shortfall in supplies by following 'the unnatural practice' of buying oil from Romania.[88] Apart from Russia, Romania was the only state which had been prepared to supply Germany on a Reichsmark basis. This lasted until the Romanian National Bank decreed, in 1935, that shipments were only to be made against 100 per cent free exchange.

Nevertheless, German imports of oil rose considerably up to 1937 and came mostly from Romania. The German-Romanian Payments Agreement provided the solution. It also helped to effect a trade substitution: instead of Britain supplying oil plant to Iran, Germany supplied oil plant to Romania.[89]

Several attempts were made by AIOC and British officials in London and Berlin to secure an allocation of currency under the Payments Agreement for British-supplied oil to Germany. In London an exasperated Morris reminded the Petroleum Department, in September 1936, that the simple facts were that AIOC was a British concern with important interests in Germany. As such, the company felt that it should be one of the first to receive an allocation of significant amounts of foreign exchange. AIOC wanted reassurance that its interests would not be prejudiced in favour of competitors – such as Standard Oil supported by the American administration – which was able to bring barter or compensation business to Germany.[90]

Nevertheless, Olex always struggled to survive, sometimes literally, in the Third Reich. Meanwhile, news reached London of 'a tragi-comedy' taking place in Leipzig. A Luftwaffe machine had taxied across the airfield but had been unable to take off. Defective aviation spirit was held to blame. As the benzene in question had been supplied by Olex from its local depot, the manager was arrested by the Gestapo and thrown into prison pending trial for industrial sabotage. But the quality of the spirit at the oil installation, at Aachen, complied with official regulations. The real 'culprit' turned out to be a few rusty barrels in which the supplies to Leipzig had been delivered. Olex took steps to try to ensure that the company and the manager received no more than a reprimand.[91]

Rumours persisted in Germany and Britain that the Anglo-Iranian was looking to sell the subsidiary. The parent company found it difficult to understand why such ideas should circulate. Although attractive sterling offers would have been considered, such a prospect was not in sight and a disposal of the subsidiary was not sought.[92] Still, as Morris himself noted in March 1939, 'Many producers in Germany would like to get hold of a good distributing organisation such as Olex.'[93] This was why, in spite of all the enduring difficulties, there was such interest in acquiring the subsidiary. It also helps to explain why Anglo-Iranian was prepared to take a long-term view of its asset. Such a policy made commercial sense. The assessment of the potential of the market was borne out by a recovery in Olex's sales even under the burdens imposed by National Socialism. In the mid 1930s Olex's share in the covering of Germany's requirements of mineral oil products was: for motor spirit about 10 per cent, for aviation spirit more than 35 per cent, for gas oil more than 10 per cent, and for kerosene about 25 per cent.[94] By 1938 the total market share commanded by AIOC was about 10 per cent; Standard Oil and Shell remained the clear market leaders with 26 and 22 per cent, respectively.[95] This followed roughly the same pattern as elsewhere in Europe and was not far out of line with the position in late Weimar Germany a few years before.

Following the Anschluss in 1938, all remaining barriers between Austria and Germany were dismantled.[96] Anglo-Iranian realized that it would have to meet competition from both German companies and Shell; London was concerned that an unfavourable situation might develop, particularly in regard to European aviation. For, in this aspect of the business, AIOC's interest was almost entirely concentrated on the 'considerable amount of trade' with Lufthansa and the German air force. As for the motor trade, consumption of benzene was increasing and Anglo-Iranian stuck to the view that important possibilities remained in Germany which represented a large potential market for the future. The expectation was that Olex would soon start to generate surplus marks. Consequently, in order to extend trade the investment of such blocked funds in the purchase of an Austrian oil company was under consideration.[97]

At the outbreak of the Second World War most British investments tied up in central Europe suddenly seemed destined to be lost well before any long-term benefits could be realized. But then clearly the risks had been growing throughout the 1930s. With Hitler determined to prepare the German economy for war, commercial decisions could also carry significant political and strategic implications. Business interests in the Third Reich that were foreign-owned could be made effectively to chose between closure or some kind of co-operation with the régime. Anglo-Iranian's policy was to try to resist Nazi pressure up to but not beyond the point where the Olex organization was likely to collapse. Closure of the business would have left the field wide open for Standard and Shell to exploit; the two arch-rivals might then have gained a massive and irreversible competitive advantage with potentially serious consequences for the British company. Inevitably, therefore, Olex was caught up in facilitating the Nazi rearmament effort, albeit in a minor and indirect way.

For AIOC was the odd one out among the oil majors. By participating with IG Farben in joint hydrogenation projects, Shell and Standard were afforded both a degree of political protection for the operations of their German subsidiaries and investment opportunities for profits which could not be repatriated. Looked at purely in terms of the oil business, these two companies were well placed: at minimum cost they maintained the option to benefit from the future development of the German market. However, Anglo-Iranian enjoyed no such privileges. This was the penalty to be paid for the failure to contribute either to the Third Reich's strategic reserves or to the drive to achieve self-sufficiency. During the war decisions on military strategy pivoted on the need to secure oil supplies. In this respect, hostilities reduced Olex to little more than a marketing organization; the seizure of the assets by the Nazi state could hardly have helped Germany's war effort. Instead, with Hitler's failure to capture the oilfields of the Caucasus in 1941–42, the Third Reich came to depend upon synthetic fuel in a futile attempt to stave off final defeat.

Supplying textiles: the Lancashire Cotton Corporation

Unlike the oil and rubber multinationals, firms in the textile industry did not own significant subsidiary organizations in Germany. But, in common with the other two commodities, the trade in textiles was subjected to the same critical scrutiny in the interests of national defence. After all, Britain remained the world's leading supplier and the market for cotton and textile products was not exclusively civilian. In the case of the German textile industry, imports accounted for 95 per cent of all the raw materials used in 1928.[98] To meet rising demand, German producers added synthetic fibres to fabrics. However, wool and cotton were never in danger of being replaced. The terrible effects on the German Army of exposure to Russian winters during the Second World War was to demonstrate the inadequacy of clothing made with synthetic products. Textile raw materials represented, therefore, one of the key deficiencies of the Third Reich identified by the IIC before the war.[99]

As the Wehrmacht grew in size in the 1930s, the need to provide

Britain most wanted to avoid. Firms such as IG Farben were always seen to be at the centre of the Nazi rearmament effort; an appreciation that it was unrealistic to draw distinctions between industrial organizations in a command economy – which was itself so powerfully directed towards furthering rearmament – took longer to develop. The deteriorating international situation in the second half of the decade naturally dictated a more prudent approach. It then became appropriate to ask whether Britain should trade with the Third Reich at all. It was assumed that the consequences of stopping trade would be disastrous. The consequences of continuing to trade were, at least, uncertain. The time to engage in economic warfare was at the outbreak of war, not before.

Throughout the 1930s industry resisted the idea that the organization of Britain's armaments production would be best served by the imposition of government controls. Industrial leaders knew full well that, in ideological terms at least, they could count on the sympathies of the National Government. However, Chamberlain's reluctance to intervene was based more on a concern that the resistance of industry would disrupt the rearmament effort and the economy as a whole.[4] Similarly, there was no desire within government to set up controls or even to draw up guidelines on how Britain might continue to trade internationally in strategic raw materials. The commitment to non-intervention was tinged with pragmatism: nothing was to be done to alienate the National Government's business supporters. Some of the raw material transactions were brought to the attention of the government; it seems likely that many more were not. When a British firm ran into difficulties the case was treated individually and on its own merits. As the dilemma over whether to supply vital raw materials to the Third Reich could not be resolved, a clear and consistent policy never emerged.

Just as haphazard were the attempts to formulate policy over the related matter of providing new credits to the Third Reich, and to communicate this policy to the financial and commercial world. A partial Treasury embargo on long-term foreign issues was imposed in 1930 and intensified in 1931. But no law was ever passed against anybody giving a commercial credit to Nazi Germany and it was unnecessary, of course, to obtain permission from the Foreign Transactions Advisory Committee.[5] Nevertheless, the operation of the City's credit machinery was effectively constrained by political factors. Montagu Norman certainly resented such interference, but

Doing Business with the Nazis covers an important aspect of the history of the interwar years: Britain's financial and economic relations with the Third Reich. The book analyses official British policy, the interaction of government and business in Britain, and relations between British business interests and Nazi Germany. It also challenges conventional interpretations, which allege that a conspiratorial programme of economic appeasement was advanced by City-based politico-economic interests. By analysing the impact of Britain's economic revolution on the nation's élite, an alternative framework for discussion is provided. The crisis of uncertainty in Britain over the rejection of economic internationalism did not dissipate after the traumatic upheavals of 1931–32, but rather grew in intensity in the years that followed. The effects of sterling's devaluation and the imposition of tariffs were severely destabilising. A breach with Europe was opened up. In the face of economic nationalism at home and abroad, leading figures in British commercial and political life struggled to prevent a complete breakdown in relations with Germany – far the most important trading partner in Europe.

Doing Business with the Nazis illustrates how the dilemma over Britain's changing international role was made more acute by domestic constraints. Financial and commercial interests competed with each other for influence; but such interests also had to contend with divisions within government itself. No consensus could be reached on how to redefine the national interest. The institutions of the state, confronted with the growing menace of Nazi Germany and a worsening international climate, ultimately failed to devise mechanisms that could reconcile all of the different political, economic and military-strategic considerations. The book offers, therefore, a new contribution to the wider debates on business, politics and the state.

Neil Forbes is Senior Lecturer in History in the School of International Studies and Law at Coventry University. He teaches nineteenth- and twentieth-century British and European history and has a special research interest in the international political and economic relations of the interwar years. He lives with his young family in North Oxfordshire.

Cover illustration: Aviation Service of Olex at Berlin, 1930 (© *BP Amoco plc*).

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