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HISTORY OF
THE SECOND WORLD WAR
UNITED KINGDOM CIVIL SERIES
Edited by W. K. HANCOCK



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THE ECONOMIC BLOCKADE

VOLUME I

BY

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EDITOR'S NOTE

The historical study of a modern State at war, if it were comprehensively planned, would find the right place for every book in one of three main series or divisions: first, the military effort, in the wide sense of this term; secondly, the effort of the civilian population; thirdly, foreign policy (again in a very wide sense, which would, for example, include overseas broadcasting). But 'the right place' might not always be discovered without some argument between the editors of the three series. The editor responsible for foreign policy might claim that economic warfare belonged to him, because it involved much diplomatic negotiation with the neutral and allied powers; the military editor, emphasizing the massive use of air power against the enemy's economic resources, might claim that it belonged to him. The editor of the 'civil' series would find it hard to produce a strongly competitive claim.

The jurisdictions of British war historians have not in fact been defined with so much system. Since the Ministry of Economic Warfare neither belonged to the Service group nor was subject to the Foreign Office, it was deemed to be 'civil': in consequence, the editor of the present series was expected to take charge of its history. However, as Professor Medlicott explains in his preface, the interests and activities of the Ministry were more than a single historian could fully cope with. The historian would like to make clear how the British Government gained its knowledge of the enemy's economic power and to what extent that knowledge was correct: what action the Government took—by blockade, by bombing, by sabotage and other means—to destroy the enemy's resources: what disappointments it suffered: what successes it achieved. Before such a study could be completed, many things would be necessary—among them a knowledge, both comprehensive and exact, of the war-economic history of the enemy powers. To seek this knowledge would employ a team of many historians for many years.

Professor Medlicott has perforce attempted a less ambitious task, whose nature is implied in the title he has chosen. His book does not cover the whole range of economic warfare; but it has a wider scope than the traditional histories of blockade.

W. K. H.

P R E F A C E

Too much, it is now agreed, was expected of the blockade in the Second World War. The able and patient men who prepare their countries for the titanic and incalculable challenges of modern warfare must be allowed a small irrational quota of mysticism and hope; each country deceives itself as much as its opponents in attributing unprovable potentialities to certain of its less understood weapons. Blockade was a familiar enough thing in European warfare; but, adorned and transmogrified with a new name and an ill-defined promise, it had become in 1939 Britain's secret weapon.

The new name, 'economic warfare', covered both the blockade of Germany in the accepted sense of the term and a number of other activities which carried the economic war behind the enemy's battle lines. Of these the air bombing of industrial targets was the most important, but sabotage, psychological warfare, and a number of other unconventional expedients were pursued with varying degrees of success or disappointment during the war; it was hoped, too, that the new name would create and express a new conception of economic attack as a fighting service.

I was asked towards the end of 1941 to undertake the preparation of an official history based on the activities of the Ministry of Economic Warfare, and it is largely for practical reasons of time and documentation that this work is confined (in the main) to the story of the blockade. I wrote the greater part of the chapters that appear in this volume between February 1942 and December 1945, working in a 'full-time capacity' in a room at the Ministry in Berkeley Square. Since my return to university teaching in January 1946 I have had to continue and complete the work as best I can in the less convenient conditions of peace. I went to Washington in the summer of 1946 to collect material from the embassy archives for the American side of the story. At the end of the war the Ministry was disbanded, a large part of its archives was dispersed, and the greater part of its able war-time staff was scattered into other, and no doubt more useful, fields of civilian or official activity. The hasty disbanding of the Ministry was naturally a considerable handicap to its official historian. A government department with a permanent existence can not only keep together most of its war-time staff, but can progressively improve its archives and its experience with new material and retrospective judgement; in the case of the Ministry of Economic Warfare this post-bellum wisdom could not be added.

But I must hasten to say that apart from this quite unavoidable circumstance I have had every possible facility, and this is my

opportunity to thank the many officials of the Ministry who, though busy men, were always ready to discuss problems, read drafts, and fill gaps in the documents with their personal recollections. I will add here, for the purpose of the record, that I had unrestricted access to all the documents that I wished to examine in the archives of the Ministry, and that my conclusions as they appear in this work are everywhere my own, and my own responsibility.

As far as possible I have confined this work to an account of the activities of the British Government in its economic blockade of Germany, Italy, and Japan, and to the reasons for action which appeared adequate and necessary at the time. Later knowledge from sources which were not available then and are only partly available to-day may show that action was ill-advised and conclusions faulty, but to attempt to work this information into the story at the present time would probably be more confusing than helpful to the reader. Some references to this later knowledge have been necessary, but I have introduced them as sparingly as possible, and have endeavoured always to keep before the reader the terms of the problem as they were seen at the time. This limitation is particularly important in dealing with the effect of the blockade on Germany. We have ample material for saying what the Ministry of Economic Warfare *thought* to be the economic condition of Germany, and what it believed to be the result of its pressure; we do not yet possess the material for a definitive study of German economy during the war, and we can advance only tentative conclusions as to the relative importance of the blockade, air bombing, attrition of resources in battle, and faulty economic planning, as contributions to her final defeat. Our knowledge of the effect of British policy on the minds and economies of neutral and Allied governments is also in some degree imperfect; at any rate it cannot be based on the full documentation which is available for our own action.

In practice the activities of the Ministry in relation to the blockade were mainly of two kinds, administrative and diplomatic, the former concerned with the interception and control of contraband goods and ships carrying them, the latter with negotiations with neutral and Allied governments for the restriction of supplies to Germany. The advantages and disadvantages of carrying the story of each activity right through the war are fairly evenly balanced, but it seemed best in the end to combine the topical and the chronological methods of treatment, and the history is accordingly divided into a number of parts corresponding to the main phases of the story. The fall of France and the German attack on Russia are the obvious turning points in the period covered by this volume. Each part starts with a general chapter giving a survey of the broad lines of development of economic warfare policy, and is followed by separate and more detailed

studies of the various fields of action. This volume, which is complete in itself, takes the story in general down to June 1941. I have not hesitated, however, to reserve certain topics, such as the story of economic pressure on Japan after the end of 1940, for Volume II, in order to give a continuous narrative.

The material used was found mainly in the archives of the Ministry of Economic Warfare and the Cabinet Office, but in some cases useful information has come from other government departments. The Ministry, of course, following the usual official practice, received copies of any documents emanating from other government departments which bore directly or indirectly on economic warfare. All statements in the text are based on official documents unless otherwise noted. The greater part of the documentation consisted of Foreign Office telegrams; the Ministry worked through the British Foreign Service abroad, and all its telegrams went through the Foreign Office, in a special series. The Ministry also had important contacts throughout the war with the Admiralty, the Board of Trade, and the Ministries of Food, Shipping, and Supply. This is not economic, or diplomatic, or administrative, history in the orthodox sense; economic warfare was in conception a rather simple, destructive form of economics carried out by a very wide range of complicated expedients.

Much of the interest of this work has come from the fruitful contacts with other members of the official history team during the war years and after. The first draft of Chapter IX was prepared by Mrs. Stewart Mackenzie. I have to thank my wife, Dr. Dorothy Coveney, who helped me in the early days when research assistance was hard to come by; and Mrs. E. Williams, Miss Grace Stretton, and Miss I. Scouloudi, who have given research assistance at various later stages.

W. N. MEDLICOTT

Exeter,
14th November 1950

LIST OF ABBREVIATIONS

A.N.I.C.	<i>Algemeene Nederlandsche Invoer Centrale</i>
A.T.B.	Advisory (Committee) on Trade and Blockade Questions in Time of War
C.E.D.U.P.	<i>Companhia de Exportações do Ultramar Português</i>
C.I.D.	Committee of Imperial Defence
c.i.f.	cost, insurance, freight
D.O.T.	Department of Overseas Trade
E. & O.T.	Enemy and Occupied Territories (Department)
E.C.I.	Enemy Countries Intelligence (section of Intelligence Division of M.E.W.)
E.P.G.	Economic Pressure on Germany (Committee)
f.o.b.	free on board
I.I.C.	Industrial Intelligence Centre
J.I.C.	(1) Joint Intelligence Committee (2) Joint Insurance Committee
L.A.T.I.	<i>Linee Aeree Transcontinentali Italiane</i>
M.E.W.	Ministry of Economic Warfare
M.O.F.	Ministry of Food
N.C.I.	Neutral Countries Intelligence (section of Intelligence Division of M.E.W.)
OKW	<i>Oberkommando der Wehrmacht</i> (i.e. High Command of the German Armed Forces)
S.A.C.O.R.	<i>Sociedade anonima concessionaria de refinação de petroleos em Portugal</i>
T.W.E.	Trading with the Enemy (Act or Department)
U.K.C.C.	United Kingdom Commercial Corporation

'The Ministry' refers throughout this volume to the
Ministry of Economic Warfare

INTRODUCTION

Plans and Assumptions

INTRODUCTION

PLANS AND ASSUMPTIONS

ON the outbreak of war with Germany on 3rd September 1939 the British Government put into immediate operation the thoroughgoing plans for economic warfare which it had been elaborating since 1936. Under Mr. R. H. (now Sir Ronald) Cross, M.P., a new Government department, the Ministry of Economic Warfare,¹ came into being on that day, armed with a mass of detailed information about Germany's economic problems under war conditions and the best means of accentuating them; staffed with diversified and—for the immediate work in hand—largely inexperienced talent; fired with zeal—if not always, perhaps, with enthusiasm—for the unconventional tasks before it. 'Economic warfare' was a very recent addition to the vocabulary of international coercion; the use of the term was intended to cover additions to, and to avoid some of the more controversial implications of, the blockade practices of the 1914-18 war, although these formed the real basis of the new Ministry's programme. The official definition is that contained in the pre-war plans of the Ministry, approved by the Committee of Imperial Defence on 27th July 1939:

The aim of economic warfare is so to disorganize the enemy's economy as to prevent him from carrying on the war. Its effectiveness in any war in which this country may be engaged will vary inversely with the degree of self-sufficiency which the enemy has attained, and/or the facilities he has, and can maintain, for securing supplies from neighbouring countries, and directly with the extent to which (i) his imports must be transported across seas which can be controlled by His Majesty's ships, (ii) his industry and centres of storage, production, manufacture and distribution are vulnerable to attack from the air, and (iii) opportunities arise for interfering with exports originating from his territories.

Thus the new ministry was to be the successor of the Ministry of Blockade of the 1914-18 war; the one outstanding innovation would be attack by air and other means on economic targets behind the enemy's lines. It was, of course, intended to start where the Ministry of Blockade left off, but the term 'economic warfare' undoubtedly suggested in many quarters outside the Ministry a more comprehensive and original programme than was in fact contemplated.

¹ The Ministry was set up by S.R. & O. (1939), No. 1188.

In its widest sense the term 'economic warfare' should presumably include all economic activities which directly or indirectly further the war effort of a belligerent; the term was used in very much this sense by the United States Government after Pearl Harbour. British official usage made, however, a broad distinction between, on the one hand, supply, armament, and trade functions which ensured the ability of Britain to wage war, and, on the other, those measures which were more or less directly aimed at weakening the enemy's economic power to go on fighting. The latter, which alone constituted what was known officially as 'economic warfare', did not include the attrition of the enemy's resources through actual fighting, although this was bound to be the chief, or one of the chief, means of sapping his economic strength. Economic warfare was, in other words, concerned with measures aimed directly against the enemy's economic resources, and not with measures—economic or otherwise—directed against his forces in the field. Even with this restriction the field of action of the Ministry of Economic Warfare was wide in 1939, and it grew wider as the war went on. After 1942 the growing weight and ferocity of Allied air bombing made possible, for the first time in history, a decisive attack on an enemy behind his battle lines. The Ministry had an important contribution to make to this air offensive as it supplied particulars of economic targets in enemy territory, but the final decision as to targets lay with the bomber commands of Britain and her Allies after the consideration of strategical as well as economic objectives, and the Ministry had no executive responsibility in the matter.

The story of the strategic air war against Germany will in any case be told in British and American studies elsewhere, and in this work we shall be concerned in the main with those economic-warfare activities which concerned the neutrals, and the frustration of their temptation to do business with the enemy. These activities made up what we may call the 'economic blockade' of the Axis powers, using the word 'blockade' in the wider or more popular sense of the 1918 armistice convention or the United Nations Charter.

The success of any such economic blockade depends upon three factors which must necessarily vary with each power against which it is directed. In the first place the economy of the blockaded power must be vulnerable; if it has taken the precaution to remedy a lack of self-sufficiency by stockpiling, then the mere withholding of imports will be effective only after time, military operations, civilian consumption, and other factors have once more produced a vital dependence on foreign supplies. In the second place the blockading power must have the means, by the control of sea and land routes, diplomatic influence, control at source and so on, to cut off the supply of goods to its enemy from outside his border. Thirdly, the blockading power

must be able to secure the acquiescence or co-operation of neutral powers, whether adjacent to the enemy or supplying him from overseas. These three problems—the enemy, the weapons, and the neutrals—formed the basis of the prolonged official examination of economic-warfare questions in Britain between the two wars, and if there were grounds for anticipating improvements in the methods and weapons of economic warfare there were also grounds for anticipating a counterbalancing effectiveness in enemy and neutral resistance.

The general tendency of opinion in Great Britain outside official circles was to underrate the importance of this resistance. The wide acceptance of the belief that military aggression could be prevented by a rigorous enforcement of economic sanctions on the part of the League powers, and the even more widespread, though rather contradictory, assumption of the unparalleled destructiveness of future wars, prevented any very thorough popular examination of the complexities of the problem; this tendency was strengthened by the German inclination to exaggerate the success of the 1914-18 blockade and by the absence of any adequate corrective in the form of official Allied publications. Public interest such as it was also tended to over-simplify the problem by thinking of blockade primarily in terms of food. In the same way the problem of neutral opposition was little understood. In a world fit, or fit only, for belligerents to live in, the problem of blockade would be tremendously simplified by the disappearance of neutral interference with the blockading power, which would then endeavour by military action alone to prevent all passage of goods over its enemy's frontier. Such a state of affairs had not, however,—in spite of the impossibility of true neutrality in a totalitarian age—been reached in 1939, and the course of planning for economic warfare was necessarily conditioned by consideration for neutral interests, traditional legal rights, and political sympathies. As this problem of neutral and belligerent rights formed the starting point of the pre-war discussions it will be convenient to examine it before turning to the specific case of a blockade of Nazi Germany.

(i)

Neutral Rights and Duties

For a hundred years before 1914 Great Britain had been engaged in no war in which sea-power was a paramount consideration, and her traditional sympathy for the rights and independence of peacefully-inclined nations had led her to acquiesce in various encroachments on the belligerent rights which it was her interest as the world's

strongest naval power to retain. The foundation of modern international law in this sphere had been laid during the series of naval wars between 1756 and 1815, and the tendency of international discussion after 1815 had been to base further legal definition on the more innocuous practices of the earlier wars. Although Napoleon's Continental System and the British reply had shown the technical possibilities of large-scale economic warfare, economic pressure was still thought of in terms of privateering, the close-cordon blockade of enemy ports, and the supply of goods from overseas neutral sources direct to the coasts and ports of a belligerent. The result was that legal definition lagged behind economic circumstance, and even such legal definition as was secured tended, in the absence of adequate war-time experience, to be contradictory as well as inadequate. Moreover the course of international discussion was bound, in this long period of peace, to be unsympathetic to the extension of belligerent rights of any description, and Britain, as the world's strongest naval power, had always to assume that other naval powers would wish to restrict her operations.

The four basic rules of international law governing blockades had been recognized by the British Prize Courts even before 1815, and may be summarized as follows. (1) A blockade to be binding must be effective, in other words, maintained by a sufficient number of ships to ensure that a vessel attempting to run the blockade would probably be captured. (2) Only a belligerent can establish a blockade. (3) To be valid a blockade must be duly declared and notified; the declaration must state the exact geographical limits of the blockaded area and the days of grace allowed to neutral vessels to enable them to come out of the blockaded port. (4) The blockade must be limited to the ports and coasts of the enemy. The essential points in this definition were confirmed in the Declaration of Paris of 1856, and in Article 2 of the unratified Declaration of London of 1909.

It at once became clear on the outbreak of war in 1914 that these definitions, which presupposed naval action close to an enemy's coasts, had little relevance to a war in which modern artillery, mines, and submarines made such action impossible, and in which the enemy was so placed geographically that he could use adjacent neutral ports as a channel for supplies. A belligerent has, however, a generally-recognized right to seize and condemn goods which he has declared to be contraband. Certain conditions must be fulfilled: the goods must be suitable for belligerent use, and they must have an enemy destination; the belligerent must be prepared if necessary to defend his action in the Prize Court. He has also the right to order his warships to visit and search the private neutral vessels (but not the warships) of neutrals, and this enables him to detect and take control of suspected contraband. Although this contraband control

was subject to various restrictions and ambiguities in 1914 it provided the means of regulating the flow of goods through adjacent-neutral territory to Germany, and could be exercised under international law without the formal establishment of a close-cordon blockade of the traditional type. For want of a better term, this means of control was sometimes called a 'long-distance blockade', and the British Government habitually spoke of its economic pressure on Germany as 'blockade' or a 'policy of blockade', and even named the relevant government department, later in the war, the 'Ministry of Blockade'. The context shows that the word was being used in a general sense to describe the government's conduct of economic warfare; nevertheless openings were thereby given for accusations of illegal conduct by those neutral governments who chose to regard the close-cordon blockade as the sole means of pressure justified under international law.

The real difficulty lay in the fact that the 1914 war had created conditions for which the existing prize law was unprepared, and the point at issue between Great Britain and the neutrals was, or should have been, not whether the letter of the existing international law was being observed, but whether the new practices demanded by the changed conditions of economic warfare were in accordance with the spirit of international law as it concerned the relations of belligerents and neutrals. The inadequacy of the existing law becomes clear when it is remembered that in 1914, and indeed in 1939, there had been no generally-ratified international agreement since the Declaration of Paris in 1856. By that Declaration, which was signed by Great Britain, Russia, France, Austria, Prussia, Sardinia, and Turkey, the British Government gave up its long-established claim to capture all enemy goods (including non-contraband) on neutral ships, and secured agreement to the abolition of privateering; the French Government abandoned the practice of seizing neutral goods on enemy ships. The principle which Britain had thus accepted, that apart from contraband the neutral flag covered enemy goods, would normally exclude interference with an enemy's export trade, and it can hardly be said that she received an adequate equivalent in the abolition of privateering. The Declaration of London of 1909 was a more elaborate attempt to define all the outstanding issues, but it had not been ratified on the outbreak of war in 1914 by any of the major belligerents. It did, however, make some large and surprising contributions to the general confusion on the subject. It recognized the division of contraband into the three classes of absolute contraband, conditional contraband, and free goods, the first consisting of goods suitable only for war purposes, the third of goods not susceptible of any use in war, the second of goods which could be used for either purpose. It provided (under Article 35) that the so-called doctrine of

continuous voyage, under which the final destination of the goods was the decisive consideration, should not apply to conditional contraband. It also provided, in Articles 22–28, definitions of goods suitable for inclusion in the three categories of contraband. It was customary for neutral writers, during and after the 1914–18 war, to say that the Declaration, although unratified, was a statement of what enlightened jurists considered international law to be.¹ The enlightened jurists were, in that case, very unenlightened economists, for they included in the ‘free list’ such goods as textile materials, rubber, raw hides, metallic ores, precious stones, oilseeds and nuts, earths, clays, agricultural and other machinery, glass, and paper—all items which could be put to some use or other in modern warfare. Nor were the enlightened jurists particularly logical in their treatment of ‘continuous voyage’: as Sir Samuel Evans pointed out in his judgement in the case of *The Kim* in 1915, if it was right for a belligerent to capture absolute contraband with an ultimate enemy destination it should be right for him to capture goods which became contraband because their final destination was the enemy government or its armed forces. Article 1 of the Eleventh Hague Convention of 1907 provided that postal correspondence, neutral or belligerent, official or private, found on board either a neutral or an enemy ship at sea, was inviolable; here again the decision seems to have been due not so much to high principles as to the belief that, with the development of modern means of communication such as cables and wireless, postal communications would no longer be of decisive importance in warfare.²

The whole approach to the problem of contraband at the Hague Conference was, indeed, governed by an assumption of fact which happened to be wrong, namely, that the control of contraband was powerless to accomplish its purpose and its only result was to harm neutral commerce. It was the British delegate, Lord Reay, who developed this argument; ‘it is indisputable’, he said, ‘that in recent wars it has never been possible for a belligerent to deprive his adversary of the munitions which the latter needs’. It seemed, therefore, reasonable to ask whether there was any need for the belligerent to claim his established right ‘to prevent his adversary from receiving from a neutral those things which are indispensable to

¹ A good summary from the British angle is given by D. T. Jack, *Studies in Economic Warfare* (1940), Chapter III. The United States’ point of view is given in A. M. Morrissey, *The American Defense of Neutral Rights, 1914–1917* (1930); that of the northern neutrals in E. F. Heckscher, *Sweden, Norway, Denmark and Iceland in the World War* (1930), pp. 43–61. A Swiss study by Dr. iur. H. E. Duttwyler, *Der Seekrieg und die Wirtschaftspolitik des neutralen Staates* (Zürich, 1945), gives an interesting summary of development from 1907, and recognizes the inadequacy of the London Declaration under modern conditions (pp. 13–31).

² C. J. Colombos, *A Treatise on the Law of Prize* (Grotius Society, 1940), pp. 154, 169, 170.

the waging of war'. The outbreak of war on a continental scale in August 1914 soon convinced the belligerents that an unprecedented effort was needed, and these arguments quickly lost their validity; it was not surprising, however, that the neutral, who by the very fact of neutrality was in large measure untouched by the sense of danger, anger, and exhilaration of the combatants, should cling to them. It was also inevitable that as the war progressed the neutral should be led to adjust his attitude to the increasingly desperate measures of both sides in the light of his own intellectual and emotional reactions to their conduct and to the underlying issues. In this adjustment, however, many political and psychological factors were involved; the neutral might incline to one side or the other, he might acquiesce under protest while reserving his legal claims, and he would certainly demand compensating concessions which would, in some cases, delay or weaken the war efforts of the combatants.

Certain broad differences between the position of the adjacent and the overseas neutrals, which appeared in the 1914-18 war and in a modified form after 1939, must also be borne in mind. None of the European neutrals could hope to maintain the absolute isolation which was both the practice and the ideal of most of the American republics in 1914; they were (after Italy's entry into the war) small powers, their economic life, political thinking, and military systems could hardly exist without the tolerance of their great neighbours, and they were as interested as the belligerents themselves in the outcome of the war and the shape of the new Europe that would follow it. Accordingly, while insisting on their theoretical right to go their own way without interference from the belligerents, they had to accept in practice the fact that they had a rôle to play in the war, that they must be ready to suffer (and even to profit) from it, and that they could not, in brief, remain completely above the battle.

But whereas European neutrality presupposed some adaptation, however reluctant, to belligerent conditions, American neutrality was a legalization of escapism which asserted the right of the United States to remain untouched by European war and politics. The historical bases of United States isolationism, founded on Washington's assertion that geography made it possible for the United States to distinguish between the primary interests of Europe and itself, took legal shape in the neutrality law of 1794, which required of the American as a neutral only that he should prevent the enlistment of men on United States soil for the service of foreign governments and the commissioning of privateers for such service in American ports. This did not restrict in any way the freedom of United States citizens to trade with belligerents, and no effective modification of the 1794 provisions was made until the Neutrality Act of 1935. United States foreign policy in the nineteenth century developed in the spirit of

Washington's recommendation in his Farewell Address that the great rule of conduct for his fellow countrymen in extending their commercial relations with foreign nations should be to have as little political connection with them as possible. The absorption of American energies during the nineteenth century in the mastery of the North American continent strengthened the sense of uniqueness which was coming to dominate all American attitudes—political, moral, and economic—towards the Old World, and when, in the twentieth, American expansionist doctrines were sublimated by Woodrow Wilson into a conscious aspiration for the moral leadership of the world, the United States stepped from isolation to leadership without acquiring the intimate family sense of equality with, and dependence on, near neighbours which characterized the relations of the European states (even when fighting one another). The result was that as a neutral the United States was liable to press her legal right to immunity from interference to the full, and as a belligerent to enter war at her own time and to fight it according to her own conception of expediency and moral purpose. From 1914 to 1917 she condemned as a neutral and as the protagonist of neutrals many of the practices which she had adopted in her own Civil War; as a belligerent after April 1917 she declined to call herself an ally, infringed some of the legal rights of neutrals which she had previously defended, used her economic power in an original, though quite legal, manner to put pressure on them—thereby contributing effectively to the British economic blockade—and demanded the freedom of the seas in the second of the Fourteen Points.

Two other factors which greatly affect the relationship of belligerents and neutrals in these matters must be noted. The first is the tendency of neutral governments to base their objections to blockade practices not on legal rights but on national dignity, safety, or convenience. In the First World War, as the scope of British economic-warfare measures broadened, this objection became a much more important obstacle than the rather dubious legal arguments based on eighteenth-century practices. As a neutral between 1914 and 1917 the United States protested against blacklisting, bunker control, cable censorship, and 'hovering' off the three-mile limit; in these cases her objection was essentially that such practices involved inconvenience and loss, and perhaps an infringement of her sovereign rights. The vigour with which she could press her case depended on her military and political strength, and the degree to which her government and public opinion were prepared to go in condoning British practices. The fact that she herself, after entering the war in 1917, was able to adopt all these practices in dealing with neutrals shows that the basis of judgement was essentially subjective.¹ The second factor is the

¹ T. A. Bailey, *The Policy of the United States towards the Neutrals* (1942), pp. 469-71.

right of a belligerent to resort to retaliatory measures in reply to a violated obligation on the part of the enemy. Such reprisals should satisfy two conditions. They should be appropriate to the occasion as regards both their character and their severity; and they should not cause excessive or unnecessary damage to neutrals. That the neutral is, however, bound to suffer in many cases is inevitable, and a fruitful source of controversy. The British Prize Court accepts the view that the right of retaliation 'is a right of the belligerent, not a concession by the neutral'; a belligerent who is forced to resort to reprisals will naturally take the view of George Canning in 1808 that third parties which incidentally suffer from retaliatory measures should seek redress from the power whose original aggression occasions that retaliation.¹

The practical effect of these two factors and of the general circumstances of the 1914-18 war was, then, to develop a technique of economic warfare vastly different from anything that had been known before, with a new range and effectiveness, and, on the other hand, with new forms of neutral resistance. In the earlier stages of that war the efficiency of the economic blockade was hampered by the British Government's cautious procedure in face of neutral protests, though also, of course, by mere failure to understand its full possibilities. On the outbreak of war naval control was set up in all the narrow seas through which Germany might draw supplies, but many sources of supply were left open, and the Allies never succeeded in closing all of them. The British Government would only accept the Declaration of London subject to various 'additions and modifications', but even so it was unable to make its control complete. In the Order-in-Council of 20th August 1914 it accepted the distinction between absolute and conditional contraband, but the doctrine of continuous voyage was applied to the latter, and it was laid down that the evidence justifying capture need not be limited to the ship's papers. A further Order-in-Council of 21st September 1914 added to the list of conditional contraband certain commodities of obvious military importance such as rubber, hides, hematite and magnetic iron ore which the Declaration of London had placed on the free list. On the other hand, the Order-in-Council of 29th October 1914, while it added further items to the absolute and conditional lists, placed such restrictions on the conditions under which conditional contraband was liable to capture that hardly a single consignment of conditional contraband could be detained until the issue of the Reprisals Order of 11th March 1915, following the announcement of the German submarine campaign against 'hostile merchant shipping'. The Order of 29th October 1914 had been designed as a concession to the United States, and a further concession was the failure to

¹ *Colombos, op. cit.*, pp. 245-56; *cf. Duttwyler, op. cit.*, p. 26.

place cotton, an essential item in the manufacture of explosives, even on the conditional-contraband list. During the first five months of 1915 United States cotton jobbers shipped to Scandinavia and Holland about seventeen times their normal exports; cotton exports from Britain itself during the same period were about fifteen times the normal exports.

The extension of British belligerent rights by the Reprisals Order of March 1915 produced a vigorous protest from Washington, and after a British reply there was an even stronger American protest on 21st October 1915 which insisted that even if conditional contraband were intended to pass through neutral territory to an enemy destination, 'that fact is not sufficient to justify their seizure'. The British Maritime Rights Order-in-Council of 7th July 1916 reaffirmed the existing Allied interpretation with regard to contraband carried by neutral vessels, and the United States Government in September 1916 reserved all its rights and protested that the new rules were 'at variance with the law and practices of nations in several respects'.¹ After entering the war in April 1917 the United States applied contraband control in some directions more effectively and with more originality than the British had been able to do; in particular she used export control to regulate supplies to adjacent neutrals as a bargaining weapon. She also, after some hesitations, adopted the practices of bunker control and blacklisting. These actions were, as we have already noted, considered to be within the scope of the sovereign rights of the United States, and to imply no acceptance of the Allied interpretation of international law against which the various protests had been made before 1917. The printed instructions issued to American naval officers in 1917 repeated almost verbatim the stipulations of the Declaration of London that (1) a blockade must not bar access to neutral ports and coasts; (2) a blockade, to be binding, must be effective; (3) a blockade must be applied to the ships of all nations. The United States Navy was concerned mainly with anti-submarine operations and convoying, and after the war the United States Navy Department maintained that no neutral ships or cargoes had been brought into port by United States war vessels for adjudication as prize, and that no United States vessel had taken part in any case of search and seizure of the kind contested in the United States note of 21st October 1915.

The result of these developments was that throughout the inter-war period the greatest uncertainty remained as to the attitude of the United States and other possible neutrals towards a British economic

¹ Morrissey, *op. cit.*, Chapter VI. Robert Lansing, as Secretary of State, pointed out to President Wilson the unwisdom of making statements which the United States might regret if she became a belligerent, and he drafted American protests with this consideration in mind. *Ibid.*, p. 140; T. A. Bailey, *op. cit.*, pp. 13-15.

blockade in a future war. The examination of plans for the use of economic pressure as a weapon of collective security under the League of Nations postponed indefinitely any comprehensive international agreement on blockade and contraband issues. The Cobb-Lippmann interpretation of the Fourteen Points, accepted by President Wilson on 30th October 1918, assumed that a 'general war' entered into by the League of Nations to enforce international covenants would be conducted against an outlaw nation, and that 'complete non-intercourse with that nation' would follow; the traditional limitations on the freedom of action of the blockading powers would not operate, as no neutrals would exist in the 'general association of nations' which was to form the new League. But in a war between a limited number of nations in which the League of Nations remained neutral, the rights of neutrals would be maintained against the belligerents, 'the rights of both to be clearly and precisely defined in the law of nations'. In a letter to Lansing on the same day Wilson said that blockade would require immediate redefinition in view of the many new circumstances developed by the recent war, but 'there is no danger of its being abolished'.¹ But the League was not universal and therefore did not abolish neutrality; accordingly in either a 'League war' or a 'limited war' neutrals, including in all probability the United States, would exist, and in fact during the inter-war period no new legal clarification of the 1914-18 economic warfare problems was secured.

During the 'twenties there was clearly great uncertainty in the United States on these issues. On the one hand the United States was now a great naval power, and in an isolationist mood; she might as a neutral in a future 'limited war' use her naval strength to enforce the doctrine of the freedom of the seas in its most extreme form. It was believed in British official circles that this consideration explained her refusal at the Geneva naval conference in 1927 to agree to the British desire to maintain a large force of small cruisers, which would be needed not merely to protect the trade routes but also to enforce the blockade. The United States wanted a smaller number of big cruisers in order to prevent British interference with her commerce as a neutral. During the naval disarmament discussions of 1929-30, President Hoover drew the attention of Mr. Ramsay MacDonald to the view 'widely held in the United States that good relations between the two countries could never be fully established until the problems associated with the capture of property at sea in time of war had been squarely faced'. He suggested a general treaty prohibiting the capture of food supplies. The British Government decided, however, to maintain its belligerent rights 'as high as possible', and after its acceptance of the desired cruiser limitation,

¹ H. Rudin, *Armistice, 1918* (1944), p. 274.

President Hoover agreed not to press his food proposal.¹ There was, on the other hand, a growing realization that as a great naval power the United States would in a future war wish to enforce an economic blockade; in the words of Mr. Spencer Phenix, who prepared an exhaustive report on American claims against Britain during the 1914-17 neutrality period, she would 'unquestionably want to pursue very much the same procedure as that followed by the British'.² Hostility to Axis foreign policy, and the attempt to secure immunity from war through neutrality legislation, prevented any reopening of the question of belligerent maritime rights by the United States Government after 1933.

In short, then, the outbreak of war in 1939 found the legal relationship between belligerents and neutrals more or less as it was in 1918. But few could now claim neutrality in spirit; there were confessed 'pre-belligerents' and 'non-belligerents', and the intensity of the desire of the smaller European states for safety from totalitarian attack showed their inevitable emotional entanglement in the struggle.

(ii)

Pre-War Planning: the Weapons of Economic Warfare

It was against this background of legal and political controversy that the British Government's plans for economic warfare were elaborated before September 1939. Shortly after the close of the 1914-1918 war the Government set up an Advisory Committee on Trade Questions in Time of War (the A.T.B. Committee), as a sub-committee of the Committee of Imperial Defence (C.I.D.). This met occasionally during the 'twenties, but as there appeared no likelihood of a European war in the immediate future its deliberations were of a very academic character. There was, as we have already noted, considerable doubt as to the attitude of the United States, and after the failure of the Geneva naval conference in 1927 a ministerial sub-committee under Lord Salisbury was appointed to consider whether it would be better to aim at the fullest possible maintenance of Britain's belligerent rights or to agree to their restriction in the interest of improved Anglo-American relations. This Committee reported in 1929, with only one dissentient vote, in favour of maintaining British belligerent rights as high as possible. The A.T.B.

¹ E. L. Woodward and R. Butler, *Documents on British Foreign Policy, 1919-1939*, Ser. II (i), Nos. 77, 79, etc.

² Bailey, pp. 479-80, and footnote reference.

Committee drew up a scheme for a Ministry of Blockade, 'located at the Foreign Office', which was approved by the Committee of Imperial Defence in 1929, but it was not until the accession to office of the Nazi Party in February 1933 that more precise arrangements were considered.

In the meantime, however, an important step had been taken in the winter of 1929-30 with the setting-up by the Committee of Imperial Defence of a small staff to study and report to the C.I.D. on 'industrial mobilization'—the state of industrial and economic preparedness of foreign countries to make war. This subject, which the Germans called *Wehrwirtschaft*, had recently given rise to a number of reports, particularly from French sources. Major (later Sir) Desmond Morton, at that time lent to the Foreign Office, who had already studied these reports in addition to his other duties, was asked in March 1931 to create an office for the study of industrial mobilization in foreign countries, and this soon became known as the 'Industrial Intelligence Centre' (I.I.C.). The work proceeded at first under conditions of great secrecy, but it soon became clear that, although the work was secret with regard to its outcome, there was no need for secrecy in the fact of its existence, and that over-secrecy was, indeed, something of a handicap. Accordingly it was agreed in October 1935 that the I.I.C. should become an openly recognized Civil Service organization. A somewhat adventitious connection with the Department of Overseas Trade was thereby established through Sir Edward Crowe, the permanent head of the D.O.T., who was also chairman of the relevant sub-committees of the C.I.D. Although the I.I.C. was thus affiliated for administrative purposes to the D.O.T. the instructions governing its activities were received direct from various sub-committees of the C.I.D., or through the C.I.D. Secretariat, at the head of which was Sir Maurice (now Lord) Hankey. The I.I.C. also collaborated with the Joint Intelligence and Joint Planning Committees of the Chiefs of Staff in the preparation of strategic reports and plans. It supplied the economic research and many of the new ideas on which the plans for economic warfare were based; on the outbreak of war in September 1939 it provided the nucleus of the Intelligence Department of the Ministry of Economic Warfare.

In October 1933 and January 1934 a sub-committee of the A.T.B. Committee produced two reports on the possibility of exerting economic pressure on Germany; these assumed Russia's non-participation. After the entry of the U.S.S.R. into the League, a further paper on economic pressure on Germany was drawn up to include Russian co-operation. This was circulated in June 1935. These papers referred to pressure under the auspices of the League, in circumstances where there was no resort to war. During the next twelve months the

A.T.B. Committee was mainly concerned with the problem of economic pressure on Italy during the Abyssinian crisis, although on 9th March 1936 the economic-pressure sub-committee received direct instructions from the Cabinet to prepare a report on the possibilities of exerting economic pressure on Germany. This was the result of a statement in the French press that the French Government contemplated a proposal at Geneva to apply economic sanctions to Germany in reply to the latter's reoccupation of the demilitarized zone. In its annual report for 1936 the Committee reached the general conclusion, after a careful study of the crisis, that the imposition of sanctions on Italy would be ineffective in stopping the Italo-Abyssinian war in any limited period without the exercise of belligerent rights.

The year 1936 marked the beginning of the more detailed planning for economic warfare which was completed by the summer of 1939. As a result of experience gained during the sanctions crisis a complete revision of the contraband lists from the point of view of a major war was undertaken, and the detailed revision of certain other of the existing plans was set on foot. The continued tension in British relations with Germany during the first half of 1937 resulted in a report by the Chiefs of Staff on 'Planning for War with Germany', which recommended that the A.T.B. Committee should draw up definite plans to provide against the contingency of war with Germany in 1939, with alternative plans for the co-operation of possible allies (France, Belgium, Holland, Czechoslovakia, Poland, and Russia) and of the League of Nations. The Defence Plans (Policy) Sub-Committee, under the chairmanship of the Prime Minister, agreed in April 1937 that this work should be undertaken. The sub-committee on economic pressure was accordingly reconstituted as the E.P.G. (Economic Pressure on Germany) Committee, and held its first meeting on 29th July 1937; at the end of the year its work was interrupted by instructions to give priority to the preparation of a definite plan for exerting economic pressure on Japan, but in March 1938 work on the German plan was resumed, and the complete scheme was circulated in July 1938. Thus it was ready for the precautionary mobilization of the Ministry of Economic Warfare which took place during the Munich period. There were subsequent revisions to keep the plan up to date, the last being that of 9th August 1939. Although these changes showed a progressively more cautious attitude towards estimates of German stocks and the reaction of neutrals, the broad conclusions of the first report remained unaltered.

The organization and constitution of a government department to conduct the economic war against Germany had also to be elaborated. First of all, however, an important preliminary question had to be answered. Should there be a separate government department re-

sponsible for economic-warfare questions, or should the work be farmed out among the departments primarily concerned, with a committee to co-ordinate policy? It was agreed from the start that an individual Minister should be responsible, and that blockade policy could not be run by a committee; but the Board of Trade was for some time the protagonist of the view that the Minister's powers should be exercised only through existing departments. The problem was first discussed seriously at a meeting of the A.T.B. Committee, with Mr. Walter Elliot in the chair, on 11th June 1937. Members recalled that in the 1914-18 war an attempt had first been made to carry out the blockade by departmental co-ordination, but that this had completely broken down, and Lord Robert Cecil had then been appointed Minister of Blockade with Cabinet rank and direct control over all sections of all departments concerned in the work. Some of the departments of the Foreign Office had been completely transferred from the control of the Secretary of State to that of the Minister of Blockade. In the discussion it became clear that there was a general recollection of great confusion and of contradictory instructions prior to the institution of unified control under Lord Robert Cecil. The result of this important meeting was the appointment of a sub-committee to consider the matter further. Its report, which was not presented until 24th February 1938, proposed the setting up of a 'Ministry of Economic Warfare' (the title had come into general use during the discussions), under a Cabinet Minister, with an adequate staff, directly responsible for negotiations and correspondence with neutrals on all blockade questions, together with a Prize Department to deal with questions concerning enemy exports and imports. There were also to be Financial Pressure, Intelligence, and Legal divisions. Under the plan it was visualized that a large volume of work connected in some degree with economic warfare, such as control of United Kingdom exports, insurance, and the provision of statistics, would continue to be carried out by existing departments.

It fell to the Co-ordination Section of the Foreign Office to elaborate this sketch into the full constitution of a new ministry; once the decision to set up a separate ministry had been taken the tendency was to extend rather than narrow the range of activities for which it became directly responsible. The Co-ordination Section was originally an offshoot of the Economic Department, but it gradually attained a large measure of *de facto* independence and dealt not only with economic warfare but also with other matters of war preparation inside the Foreign Office.¹ The final shape of the Ministry is described in Chapter II.

¹ Mr. J. W. Nicholls, who was to be one of the stalwarts of the Ministry of Economic Warfare throughout the war, was mainly responsible for the more detailed work of preparing the plans of the new ministry.

The adoption of the term 'economic warfare' during the vital period of planning after 1936 introduced a much broader and more positive conception of the rôle of economics in a future war. It was the I.I.C. that coined the term, and led the authorities to reject 'blockade' as out of date and inadequate as a comprehensive description of all the activities involved. The underlying assumption was that in a future 'total war' many civilian elements would have to be taken into account, not only in defensive, but also in offensive, operations, and that the civilian economic ministry, which would come into existence on the outbreak of war, should be, and should be regarded as, a fighting department.¹ During the 'thirties, this conception was gradually impressing itself on the Service departments, and their conversion was no doubt helped by the accident that Major Morton, who made himself the protagonist of these ideas, had been a regular soldier; it is possible that the advice of a civilian head of the I.I.C. would not have been accepted so readily. He became an 'honorary' member of the Joint Intelligence and Joint Planning Committees of the Chiefs of Staff; members of the I.I.C. lectured regularly to the three Staff Colleges and to the Imperial Defence College, and Morton himself was nominated as an unofficial instructor assisting their war games and consulting with the Commandant and professorial staff. He gave an annual lecture to the I.D.C. in which he was wont to point out that there were Four Horsemen of the Apocalypse and that the man with the scales was neither the last nor the least of the four. Although these contacts were really personal and were broken off for a time by the Services when war began, they had done much to provide a link between civilian Whitehall and the military, and there is no doubt that the ramifications of the I.I.C. in economic and even political offensive and defensive plans were considerable. It was a genuine revolution in war planning which led the military authorities to recognize that in certain circumstances this civilian action and advice could greatly further their offensive plans; that as the ultimate ability of a nation to wage war resided in civilian factors, psychological and economic, it was necessary and possible to make use of the advent of new weapons such as aviation, resistance movements, and saboteurs to disrupt the enemy's economic life.

These offensive economic plans, which might carry the economic

¹ Sir Desmond Morton made the following comment in a letter of 3rd December 1948 to the author: 'I can say that the dropping of the term "blockade", whether or not it was a useful point for the lawyers, took place primarily in order to emphasize the widening scope of the duties of the Ministry concerned. Between the First and Second World Wars it had been realized that in what was called "total war" many civilian elements had to be taken into account, not only in defensive, but also in offensive operations. Precisely when this conception received official sanction I cannot tell you, but it was considerably before the precautionary mobilization of M.E.W. at the Munich period'. The term 'Ministry of Economic Warfare' is mentioned for the first time in the minutes of the A.T.B. Committee under 11th June 1937.

war behind the enemy's lines, were dovetailed into the existing and now familiar framework of contraband control. The terms of reference of the new Ministry did not include any complete innovation on the blockade machinery of 1914-18; the whole system was, however, carefully reviewed, and an attempt made to integrate all means of economic pressure on a future enemy. The widened scope of economic warfare was indicated in its comprehensive definition as a fighting operation.

Economic warfare is a military operation, comparable to the operations of the three Services in that its object is the defeat of the enemy, and complementary to them in that its function is to deprive the enemy of the material means of resistance. But, unlike the operations of the Armed Forces, its results are secured not only by direct attack upon the enemy but also by bringing pressure to bear upon those neutral countries from which the enemy draws his supplies. It must be distinguished from coercive measures appropriate for adoption in peace to settle international differences without recourse to war, e.g. sanctions, pacific blockade, economic reprisals, etc., since, unlike such measures, it has as its ultimate sanction the use of belligerent rights.

Although we are concerned in this work only with those operations which made up the 'economic blockade', we must bear in mind throughout the offensive spirit and sense of innovation which inspired the group of enthusiasts who fashioned the Ministry of Economic Warfare. There was a feeling that new opportunities were available, that unorthodox enemies must be faced and that unconventional methods must be followed; in fact that if war was to be made at all it must be made ingeniously and ruthlessly. Although neither the I.I.C. nor M.E.W. ever proposed to be responsible for what was known later as 'political warfare', they recognized a psychological affinity with its aims and methods and they urged that M.E.W. could help it at many points. In a similar way they claimed to be able to help certain other departments in their attack. It must be added that more conservative and cautious elements came into the Ministry in September 1939 from some of the older government departments, and that these variations in outlook produced some bickering and discordance; in general, however, the team was a strong one, well equipped for the varied tasks before it.

In the pre-war plans three categories of economic-warfare weapons were visualized, namely, (1) legislative action; (2) diplomatic action; (3) military action in the broadest sense. Of these (1) was defined as controlling commercial and financial activities within the belligerents' own territories; (2) aimed at controlling the commercial and financial activities of neutral countries which served as sources or channels of supply to the enemy; (3) would be used to attack the

enemy directly by interfering with his supplies from overseas, whether consigned direct or through neutral countries, by destroying them or preventing their distribution after they had reached his territories, and, so far as might be practicable, by interfering with his exports. It will be convenient to examine each of these categories separately.

LEGISLATIVE ACTION. The control of British firms and persons by legislative and administrative action was not merely to prevent them from assisting the enemy, but was also a means of bringing pressure on neutrals known or believed to be assisting the enemy. A Trading with the Enemy Act prohibiting intercourse with the enemy (save with official permission) was to be introduced as soon as possible after the outbreak of war. For this purpose the 'enemy' could be assumed to cover (a) governmental agencies in enemy countries; (b) any person or persons resident or established in enemy territory; (c) any branch (in any country) controlled from a principal place of business in enemy territory; (d) any company or other body of persons constituted or incorporated under enemy law. It did not, however, include any person only because he was a national of an enemy country. The Board of Trade could make orders directing that any person or firm named in them should, for the purpose of the Act, be deemed to be an enemy; this would make possible the severing of trade between British firms and persons who, though not resident in or directly controlled from enemy territory, were assisting the enemy or associated with him. The list of such persons would be known as the 'Statutory List'. As soon as possible after the outbreak of war a system of certificates of 'origin and interest' would be instituted by British consular officers in neutral countries certifying the neutral origin of goods to be exported to the United Kingdom; without such certificates these goods would be liable to seizure. Similarly declarations of 'ultimate destination' would be required in respect of exports from the United Kingdom to certain neutral countries. Special arrangements would also be made to control exports from the country; the main objects of this would be to conserve supplies and prevent such exports from reaching the enemy, directly or indirectly, but other purposes would be served such as the bringing of pressure on neutral governments and firms. In this provision there was a danger of clashes of policy between the Board of Trade and the Treasury, which would be anxious to maintain the export trade at as high a level as possible for exchange reasons, and M.E.W., anxious to prevent all neutral trading with the enemy. The problem was indicated but not solved in a statement in the pre-war plans that it was 'important to ensure that any control imposed on export will not prejudice our interests or those of our allies more than the enemy's'. Provision was made for co-operation between M.E.W. and the

Export Licensing Department of the Board of Trade, but differences of opinion continued until the summer of 1942. Import control could also be used for economic-warfare purchases in the sense that a cessation or threatened cessation of purchases might be used as a bargaining weapon to reduce trade with the enemy. The control of shipping was also, in the main, outside the scope of economic warfare, but there were certain points of contact, namely, (a) the treatment of enemy ships on the outbreak of war; (b) the necessity of ensuring that British ships did not engage in trade with, or for the benefit of, the enemy; (c) the desirability of discouraging neutral shipowners from helping the enemy, and from chartering their ships to him.

DIPLOMATIC ACTION. This term covered all measures of economic warfare which aimed at persuading or inducing neutral governments, firms, and persons to refrain from transactions advantageous to the enemy. The pre-war plans recognized the distinction between 'overseas neutrals' (separated from the enemy country by seas *under British control*) and 'adjacent neutrals' (those able by their geographical position to maintain direct land or sea communications with the enemy). It was assumed that the objects of diplomatic action could generally be more easily attained in the case of overseas neutrals, since their trade with the enemy could, if necessary, be intercepted on the high seas; the degree of pressure that could be exerted on the adjacent neutrals was, on the other hand, conditioned not only by their political sympathies and the extent to which they were vulnerable to economic pressure by both belligerents, but also by the risk that, if pressed too hard, they might either throw in their lot with the enemy or expose themselves to attack by him. There were, therefore, certain marked differences in the treatment of the two groups.

The interception and examination of exports from *overseas neutrals* was bound to involve neutral traders in delays, uncertainties, and possible losses, and the main object of diplomatic action was to find means to minimize these, while at the same time preventing trade with the enemy. There was to be a general approach to neutral governments at the outbreak of war, emphasizing the British desire to harm neutral trade as little as possible while exercising legitimate belligerent rights. The intention, of course, was to avoid the disputes with the United States which had so worried the Foreign Office from 1914 to 1917, the chief expedient being, as before, the navicert system, together with offers in suitable cases to purchase guaranteed quantities of certain commodities in order to compensate for the loss of enemy markets. Difficulties of foreign exchange and tonnage would limit the possibilities of any such purchasing policy, but it was at least hoped that, where large purchases had in any case to be made, the possibility of using them as a *quid pro quo* would be borne in mind. The navicert system was to be introduced as soon as possible after

the outbreak of war, but this could not be done until sufficient evidence had been accumulated as to the status and activities of the consignors, consignees, and shippers involved.

In the case of *adjacent neutrals* all action designed to prevent them from acting as suppliers or channels of supply to the enemy would depend, in the last resort, mainly on Britain's power to interfere with their import trade and shipping on the high seas. And since dependence on imported supplies varied from country to country, no one method of pressure would be appropriate to all of them. But the following measures were, generally speaking, open to the British Government:

1. interruption of supplies from overseas, on the ground that they were suspected of being contraband;
2. withholding of supplies produced in, or controlled by, the United Kingdom and its dependencies, or the territory of its allies;
3. offers to purchase, on conditions, guaranteed quantities of their staple products;
4. other measures, such as shipping control and statutory listing, which were equally applicable to both adjacent and overseas neutrals.

It was hoped that these devices would give the Government sufficient bargaining strength to enable it to secure its aims by agreement with the majority of the adjacent neutrals. Dormant instructions for the negotiation of such 'war-trade agreements' were sent to the British representatives in countries which might be expected to become 'adjacent neutrals' in a future war, and these were kept up to date; the collection of data from the various embassies formed, indeed, one of the main activities of the A.T.B. Committee. On the outbreak of war adjacent neutral governments were to be urged to control at once, without awaiting the outcome of the war-trade negotiations, various commodities in which the enemy was known to be deficient. It was recognized also that negotiations with certain neutrals—particularly the Balkan states—who were highly susceptible to pressure from the enemy and scarcely susceptible to any pressure at all by Great Britain, were not likely to be successful until the development of the war had shown them that their interest lay on the side of the Allies.

If negotiations failed, then direct action might follow. This might take the form of a withholding of financial, shipping, and insurance facilities, or of a cutting off of supplies of essential commodities under British control, or of interference with the neutral's export trade with the United Kingdom. Another possible device was 'forcible rationing'.

The basis of this was that the neutral would be allowed to import only such supplies of the commodity to be rationed as corresponded with his peace-time consumption, less his existing stocks and his peace-time exports to the enemy. Although this might seem, from the British point of view, a reasonable enough course in reply to a refusal by the neutral to control his exports, it was nevertheless one which the British Government viewed with considerable trepidation before the war. It was laid down therefore that before forcible rationing was put into force the relevant government departments must satisfy themselves that it would not prejudice British or Allied interests more than the enemy's, either politically or by depriving the neutral of raw materials required for the production of essential goods for Britain. It was also doubted whether the Prize Court would condemn on 'statistical' evidence alone (on evidence, that is to say, that the goods would have been in excess of the importing country's reasonable requirements), although it was considered unlikely that the Court would award damages against the Crown if the statistical evidence were convincing. For these various reasons, therefore, it was laid down that Cabinet approval must be obtained for any use of forcible rationing. Rationing had otherwise to be arranged indirectly and wherever possible by agreement with the government or industry concerned.

Certain other measures would be applicable to both types of neutrals. These were all derived from the practice of the 1914-18 war, and although they were to be put to some original and extended uses after 1939 they were not, in themselves, innovations.

Statutory listing (popularly but inaccurately called 'blacklisting') has already been mentioned as an adjunct to the Trading with the Enemy Act. Its primary object was to inform traders in the United Kingdom (or wherever else the legislation applied) of the names of persons or firms in neutral countries with whom they were prohibited from dealing. These might be (a) enemy firms established in neutral territory but controlled wholly or largely from enemy territory; (b) neutral firms with an important enemy interest; (c) neutral firms engaged wholly or largely in trade with the enemy; (d) neutral concerns which assisted the enemy financially beyond what was legitimately incidental to their commercial dealings. Listing might have certain secondary objects, such as the replacement of enemy concerns in neutral countries by British, and the weakening of the prestige and standing of local residents of enemy nationality or association. There was to be no 'Secondary Statutory List'—that is, no list of firms who would be penalized merely for continuing to trade with those on the List. On the other hand, records would be kept of firms which, although not on the Statutory List, were for one reason or another liable to suspicion, and appropriate action might be taken against

these also. The pre-war plans showed that the Government was aware of the effectiveness of statutory listing and also of the political obstacles to its full enforcement. Further pressure could in many cases be brought to bear on neutral traders by the withholding of shipping facilities which the British controlled in various parts of the world. These included *bunkers, repair and dry-docking, the supply of ships' stores, marine insurance, the purchase and chartering of neutral tonnage*. Here, again, the pre-war plans did not contemplate any very drastic use of these methods of pressure in the early stage of the war, when the aim would be to encourage neutral tonnage to remain in the service of the Allies. The organization was, however, to be such that the restrictions could be rapidly tightened up as occasion arose.

Financial pressure could also serve the dual purpose of preventing assistance to the enemy and of inducing the neutral trader to co-operate actively with the Allies. Neutral concerns which gave credit facilities to the enemy, either by way of advances or discounts in cash or by selling goods on credit or otherwise in excess of the normal course of trade, might be dealt with by a warning and later by statutory listing. Neutral countries which assisted the enemy by loans or credits, or by allowing clearing accounts to accumulate large arrears, might be dealt with in suitable circumstances through a withholding of credit by the Bank of England; in the case of a neutral country with a Clearing, it would be necessary to prevent, if possible, the accumulation of arrears which would in effect allow the neutral to borrow from Great Britain. The relevant department of the Ministry would also have to keep under consideration the need for withholding banking facilities from neutral countries which continued contraband trade with the enemy. It would also have to maintain contact with the City in order to advise as to transactions which were to be avoided as likely to benefit the enemy indirectly, and to collect and interpret information from City sources.

Insurance firms subject to the Trading with the Enemy Act would automatically be prohibited from insuring or re-insuring risks for enemy firms or firms on the Statutory List. In addition, the Board of Trade, at the instance of the Ministry, would request underwriters, insurance companies, and agents not to insure the hulls or cargoes of vessels on the Ships' Black List. Insurance is both directly and indirectly of extreme importance in the conduct of any country's foreign trade. Directly, because the owners of goods, be they producers of raw materials, manufacturers, shippers, warehousemen, distributors, or consumers, invariably demand that their goods in production, transit, or distribution shall be insured, and would regard it as a serious deterrent to their operations if they could not obtain cover. Indirectly, because it is a valuable source of foreign exchange and therefore of purchasing power abroad. It is all the more

valuable in war-time because this purchasing power arises without making any demands upon shipping space and with very little claim upon domestic labour. One characteristic of insurance is its absence of tangible stock in trade, with consequent mobility and flexibility. Another is that the personnel employed by an insurance company abroad is largely of the less-skilled clerical type and in foreign centres this can be obtained locally and cheaply, so that, apart from, it may be, one skilled and experienced manager, it avoids any drain upon the insuring country's manpower.

The various measures which have been outlined in the eight preceding paragraphs made up, then, what the pre-war plans called the 'diplomatic action' of the Ministry of Economic Warfare. Some of these, as we shall see, were put into practice on the outbreak of war; others remained more or less in reserve during the first phase of the war, and assumed their real importance only after the fall of France, when a drastic reshaping of the Ministry's policy and methods took place. They will be described in more detail at the points at which they assume importance in the subsequent narrative.

MILITARY ACTION, as a weapon of economic warfare, denoted the use of the Armed Forces to deny to the enemy commodities required for the prosecution of the war. It could be employed in various ways: at sea, by (a) the capture of enemy ships and enemy cargoes therein; (b) contraband control, i.e. control of traffic bound directly or indirectly to the enemy under a neutral flag; (c) blockade of the enemy's coast; (d) the capture of enemy exports under neutral flags; (e) direct attack on the enemy's ports; on land, by (f), the invasion of important economic areas; and by air, by (g) attack on enemy shipping on the high seas; (h) attack on the terminal points of the enemy's trade routes; and (i) attack on centres of storage, production, manufacture, or distribution. Of these, (a), (e), (f) and (g) were described in the pre-war plans as being of indirect concern only to the Ministry; its function, it was said, would be mainly that of supplying information if and when it was required.¹ The procedure in the other cases will be described in more detail later, particularly in Chapters II and XIII. Blockade in the strict legal use of the term—that is, the close investment of the enemy's coast or ports—was regarded as scarcely practicable under modern conditions of warfare, and it was considered unlikely that it would be instituted. It was recognized that the air weapon had great potentialities in the field of economic

¹ This was, of course, a very important function; from the start the Intelligence Department of the Ministry, which developed out of the pre-war I.I.C., supplied economic information for the use of the Service Departments. Down to the outbreak of war, as mentioned on p. 16 above, the I.I.C. was actively concerned in plans and operations as well as in producing factual information; the connection was broken for some weeks (in September and October 1939), but by November 1939 it had been arranged that representatives of the Ministry should 'sit in' on the deliberations of the Joint Planning Staff.

warfare, but that much of the possible action against economic targets would have to await evidence of the enemy's intentions with regard to civilian casualties. The British Government's general policy with regard to the use of the air arm was defined briefly as follows: (a) it was against international law to bomb civilians as such, or to make deliberate attacks on civil populations; (b) targets aimed at from the air must be legitimate military objectives and must be capable of identification; (c) reasonable care must be taken in attacking such military objectives in order that the civil population was not bombed by carelessness. The terms 'legitimate military objective' and 'civil population' were, however, difficult to define under modern conditions of totalitarian warfare, and although the British Government would never initiate an attack involving heavy civilian casualties, such action might be taken as retaliation. In practice, therefore, British policy would be determined largely by that of the enemy. It is clear from these cautious remarks that the whole question of air bombing was regarded as one of great political delicacy, and that nothing on the scale of the saturation bombing of 1943 and 1944 was contemplated. Air action against economic objectives was regarded as at best a supplement to other forms of economic warfare: if, for example, contraband control and agreements with neutrals failed to prevent the enemy from obtaining adequate supplies of, say, oilseeds, the bombing of crushing mills would achieve the same ends by rendering supplies of the imported raw material useless. Or if a key commodity moved from a neutral country into enemy territory by certain routes, air attack on some vital point of the enemy's communication system might interrupt supplies long enough to disorganize his industrial machine. No more than this was regarded as practicable. The Ministry's function was, therefore, to keep a close watch on the enemy's supply position and to make itself responsible for advising the Air Ministry as to the selection of suitable economic targets. As we have already noted, the story of the Allied air offensive against German economic targets, which was to attain such vast proportions in the latter part of the war, falls outside the terms of reference of this history of blockade.

(iii)

The Enemy

The plans which have been described in general terms in the last section were of course designed with the particular case of an Anglo-German war very much in view, and were accompanied by estimates of German war potential. The broad facts about the structure of German economy and its main assets and deficiencies were public

knowledge before the war,¹ but the extent to which it had been strengthened by secret stockpiling and other devices could not be much more than guesswork to foreign observers. The British experts on the subject were fully aware of the hypothetical element in their own estimates, and accompanied them with reservations and qualifications which were, all too often, ignored by others. If Allied estimates of German economic strength erred, it was through failure to understand the psychology and tempo of German planning; as a result it was difficult to reconcile the puzzling, but often very explicit, evidences of German deficiencies and improvisations with the energy, self-confidence, and overwhelming success of German military operations in 1939 and 1940. Surely such victories must be the result of thorough and ruthless planning? Surely any denial of this must be due to wishful thinking or 'appeasement'?² The fact is that little fundamental reorganization of German industry had taken place to meet the demands of a long and exhausting war; a rapid increase in the output of finished munitions had been achieved which enabled the series of *Blitzkriege* to be carried through successfully in 1939-40, but it was not until the beginning of 1943 that the German Government woke up to the fact that its economic base was hopelessly inadequate to meet the demands of a large-scale war of attrition in face of the vast combined output of Britain, Russia, and, above all, the United States.

The Ministry of Economic Warfare at the beginning of the war was thinking primarily in terms of supply. It did not—contrary to a

¹ Jack, *op. cit.*, Chap. V, gives a useful summary from published sources of German deficiencies on the eve of war. Brooks Emeny, *The Strategy of Raw Materials* (New York, 1934), referred primarily to the United States supply position, but showed the precarious position of Germany's supplies of all essential raw materials except coal, nitrates, and potash (pp. 17, 21, etc.). Eugene Staley, *Raw Materials in Peace and War* (New York, 1937), was also written primarily from the United States supply angle, but the technical summary of the world position of thirty-nine raw materials is useful (Appendix C). Among more polemical works published on the eve of war, two may be noted at random. Ivan Lajos, *Germany's War Chances as Pictured in German Official Publications* (London, 1939), anticipated difficulties for Germany through labour shortages and inadequate productive capacity in the German steel industry (pp. 111, 117), and said that of thirty-four essential war raw materials she possessed only four in sufficient quantities. Dr. Wilhelm Necker, *Nazi Germany Can't Win* (London, October 1939), anticipated that the German railway system would crack in a major war, recorded correctly the unwillingness of German industrialists in 1936 and 1937 to co-operate with the Hermann Goering works (pp. 286-87), noted the shortages of oil and iron ore, and said that lack of manpower and materials would prevent her from winning a long war (p. 341).

² 'Statisticians could, and did, prove conclusively that Germany was hopelessly lacking in almost all of the raw materials necessary to carry on a real war . . . it was comfortable and fashionable to believe that the menace could not be real. The illusions persisted through the "phoney war" until the disastrous spring of 1940.' (D. L. Gordon and Royden Dangerfield, *The Hidden Weapon—The Story of Economic Warfare* (1947), p. 9.) Paul Einzig, *Economic Warfare* (completed in November 1939 and published in March 1940), referred in general terms to German economic difficulties in facing a long war (pp. 122-21); but in two works published in 1941, *Economic Warfare 1939-1940* and *Appeasement Before, During and After the War*, he showed reluctance to arrive at any conclusion about German economic strength. In the latter he accused the Ministry of appeasement ('. . . a number of pre-war appeasers managed to find jobs for themselves in the Ministry of Economic Warfare', p. 157, etc.).

widely-prevalent belief—err on the side of over-optimism. It assumed that the industrial strength of Germany would be adequate to equip and maintain in war all the sea, land, and air forces which she planned to put in the field and to maintain the essential services, provided that raw materials and sufficient skilled labour for her industries were available. The plans for dislocating her economy were based almost entirely on commodity control—that is, the quantitative reduction in the importation of all forms of commodities which could feed her war effort, either directly or indirectly: various measures to embarrass her already difficult financial position were intended primarily as a means of reducing her power to purchase commodities abroad. Later—after the first year of war—plans for interfering with individual industries or with her labour supply, either by air attack, sabotage, or other means, were seriously undertaken. The adequacy of the industrial base was thus taken more or less for granted, as indeed—in view of the modes of attack available in 1939—it had to be; the pre-war plans of the Ministry said explicitly that it was only by creating a sufficient scarcity of a large number of commodities that important results could be obtained.

The general view of Germany's war-time economy as set out in these pre-war British plans may be summarized as follows. It was believed that in spite of the Four Year Plan Germany would not by the outbreak of war be indefinitely self-sufficient in all raw materials and foodstuffs. Her deficiency commodities were expected to be:

Food and feeding-stuffs—

Cereals (including wheat, rye, maize, oats, barley, and rice); fruits (fresh or dried, prepared or preserved); fishery products; dairy products (especially butter and eggs); oils and fats (including oilseeds, oil cake, whale and fish-oil); coffee; cocoa.

Other vegetable produce—

Tobacco; timber; wood for cellulose; rubber and manufactures.

Textile raw materials—

Cotton; wool; flax; hemp; jute; manila; sisal.

Minerals and metals—

Aluminium; asbestos; chrome; copper; iron; lead; manganese; nickel; petroleum and products; phosphates; tin; zinc; certain ferro-alloys.

The question of stocks was clearly of paramount importance. In 1938 the A.T.B. Committee did not consider that the estimated German stocks would last after the outbreak of a war in 1939 for more than a few months in most cases. Grain, meat, butter, whale oil, iron ore, copper, zinc, tin, quicksilver, pyrites, and petroleum (although not aviation spirit) might at the peace-time rate of consumption not last more than three or four months. In April 1939, however, it was considered that Germany's position was somewhat

stronger; it was known that she had been able to raise the level substantially during 1938, and was still doing so. Her eventual objective was believed to be to bring them to a minimum of one year's peace-time requirements; reserves of foodstuffs, particularly bread grains and whale oil, and of certain raw materials (aluminium, certain ferro-alloys, aviation spirit) were believed to have reached that level already. In the case of motor spirit and oils and of other non-ferrous ores and metals, current stocks did not generally appear to exceed six months' normal supplies, while reserves of iron ore were probably insignificant. On the outbreak of war her seaborne trade would be rapidly extinguished, but she would be able to draw considerable supplies from adjacent neutral countries, and if these countries refrained from raising difficulties on financial or other grounds she would be able to replenish her existing stocks of the most important commodities by this means. In 1938 it was suggested that, if favoured by fortune, she might be able to maintain her industrial resistance, on the basis of stocks thus supplemented, for a year. In August 1939 this estimate was extended to 'as much as fifteen to eighteen months'.

This general picture is confirmed in its essential features by our later knowledge of Germany's economic preparations for war. German industry, which by 1929 had recovered its pre-1914 level of production, suffered so severely in the succeeding economic crisis as to raise doubts as to the possibility of its revival in its earlier capitalist form. The beginnings of recovery in the last months of 1932 preceded the Nazi revolution, and from the spring of 1933 until 1936 the German Government took steps to continue and accelerate the revival in production, and to achieve the dual aims of increasing employment and building up the superiority in armaments necessary for the forthcoming wars of aggression. At first the emphasis was laid on the more obvious *ad hoc* methods of reducing unemployment (programmes of public works, the restarting of works which had closed down, and the like), but at an early stage heavy governmental expenditure on military supplies was undertaken. By 1936 'full employment' had been achieved and German industry could devote itself predominantly to rearmament.

Everything was, however, concentrated on rapidity of production which would extract from the existing industrial system sufficient equipment and munitions for the *Blitzkrieg* which were to strike down Germany's enemies before their own rearmament had been completed. Rapid and early successes would make more extensive preparations unnecessary, and would further ease the situation by giving Germany control of raw materials, manpower, and plant in conquered countries. General Thomas, director of the *Rüstungs- und Wirtschaftsamt* of the OKW, the official in immediate charge of the

plans for war mobilization from 1933 to 1942, was instructed in this sense by Hitler, whose address on 5th November 1937 to the heads of the armed forces and the Foreign Office announced the decision to take the offensive (diplomatically in the first instance) in 1938.¹ General Thomas defined it as a choice for 'armament in width' instead of 'armament in depth'. He was himself an advocate of the latter policy, and had considerable support on the General Staff for the view that the next war would be a hard and exhausting one of attrition, for which Germany must prepare by a substantial expansion of her heavy industry in order to supply a continuous output of finished munitions during a prolonged struggle. This policy would have necessitated a postponement of war until 1943 or later. The basic requirement was an increase in total steel capacity, achieved in part through the severe limitation of non-military consumption, and the employment of the additional steel in the first instance, not to boost the output of munitions but to expand plant; when this expanded industrial base was fully developed there could be a rapid building up of munition reserves during a comparatively short period immediately before the anticipated outbreak of war. But this policy was rejected in principle, although the war preparations partially achieved some of its aims.

The decision to prepare for an early war by 'armament in width' determined the lines of development of German economy from 1936 to 1939. In the short time available, only a limited number of essential plans could be worked out. The main features were briefly as follows.

In the first place means had to be found to finance and man the armament programme. Any substantial increase in consumer expenditure beyond the point reached in the period of partial recovery up to 1936 would have hampered or prevented this, and increases were therefore checked by the stabilization of fixed incomes, the freezing of wage rates, the limitation of dividends, and similar devices. Care was taken not to press austerity too far, and the German masses seemed reasonably well content with an average level of consumption approximating to that of 1928-29, combined with steady employment. A census of industrial production, carried out by the *Reichsamt für wirtschaftliche Planung*, showed a total figure for so-called production goods of 21 billion RM² in 1936, as compared with 18.3 in 1928; the comparable figures for consumer goods were 10.7 and 14.4. In the latter case only the textile industry showed a slight improvement on the 1928 figures, whereas in the former there were substantial increases in the building and chemical, vehicle construction, and iron

¹ *Documents on German Foreign Policy, 1918-1945* (H.M.S.O., 1949), Series D, Vol. I, No. 19. Hitler's limited faith in autarchy is interesting: cf. remarks on p. 30.

² The exchange rate for reichsmarks fluctuates during the period covered by this volume. For purposes of rough comparison with sterling, the rate of 10 RM : £1 may be adopted.

and steel industries. Thus the production-goods trades were well placed to furnish the basis of the expansion that was now required, and the Government, by preventing consumer consumption from keeping pace with the increase of total income, provided a volume of savings which was used mainly to finance the military preparations.

In carrying out this programme the German Government had to guard against two dangers. The first was the proximity of the main industrial areas in the Ruhr, Saxony, and Upper Silesia to the western and eastern frontiers, and their vulnerability to air attacks and possibly to invasion (although the latter consideration does not appear to have worried the Government greatly). The second was the deficiency in raw material supplies which affected both civilian consumption (particularly in food and textiles) and, on a much greater scale, the armament programme itself. Under the 'Four Year Plan' of 1936 for securing self-sufficiency in raw materials, it was intended as far as possible to meet both dangers by concentrating new industries which would exploit undeveloped natural resources (particularly in low-grade iron ore) in the central German area around Hanover, Magdeburg, and Halle. A further development which was to accompany these plans was the rationalization of industry by the usual means—standardization, simplification and improvement of procedure to save manpower, reduction in the range of component parts and processes and so on.¹

The aim of the self-sufficiency programme—with which we are mainly concerned in view of its bearing on the problem of economic blockade—was to increase the production of substitutes for certain deficiency materials which would be of special importance under war conditions, and to accumulate stocks of the remainder. There was considerable development of the production of substitutes for mineral oil (by the hydrogenation of coal), rubber (buna), imported iron ores (by exploitation of the low-grade Salzgitter ores), and of synthetic fibres (to reduce the dependence on imported textile raw materials). The results were adequate to meet the requirements of a short war, but nothing approaching complete autarchy was achieved or indeed attempted. At the outbreak of war in 1939, less than thirty per cent. of Germany's supplies of oil, rubber, and iron ore came from domestic production. In the same way the accumulation of stocks of critical materials had had limited success, partly owing to shortages of foreign exchange. It must not be forgotten, however, that the German economy was based mainly on coal, which was a abundant

¹ There is ample material for the study of German war economy in the voluminous interrogations of German industrialists and in other material collected by the Allied occupation authorities after the war. Extensive, though necessarily provisional, conclusions based on this material were advanced in *The United States Strategic Bombing Survey* (U.S. Govt. Printing Office, 1945). Much of the material is now scattered between Washington and London. An authoritative study of German planning technique and its application during the war is badly needed.

and which supplied the raw material for most classes of synthetic production. Germany's greatest achievement in synthetic production was, moreover, in nitrogen, where Professor Haber's process had been developed into a great war industry during the First World War. Three-quarters of her whole nitrogen supply in 1938-39 came from this complicated process, which involved the extraction of nitrogen from the air by the use of water and coke. Nitrogen was also produced from coal as a by-product of the coke-oven process, and an approximately equal quantity came from the cyanamide process. These three together accounted for ninety-seven per cent. of her 1938-39 supplies (the remaining three per cent. came from Chile). Nitrogen was essential for the manufacture of explosives; no substitute for it was known. In addition she was well supplied with electric power, although the heavy demands on the supply had led to a progressive reduction of reserve capacity between 1934 and 1939. At the outbreak of war reserve capacity was practically nil. Nevertheless in electric power, as in coal and nitrogen, she could count on an output under war conditions from her own resources equal to her peace-time production.

The position with regard to other commodities was less favourable, and may be summarized as follows.

Iron ore. Of the total German steel capacity, forty-three per cent. was due to the Bessemer process, fifty-three per cent. to the Siemens-Martin (open hearth). The German output of high-grade steel for armament manufacture depended largely on the Bessemer process in which ore of high phosphorus content was used. Germany was, like all the leading industrial countries in Europe, relatively deficient in good high-grade iron ores, and she had relied mainly on the north Swedish mines since 1919. The Swedish ores were also valuable because of their high iron-ore content. There was a smaller output of much the same quality in Norway. These ores were mainly magnetite. On the average the ore had about sixty-two per cent. of iron and two per cent. of phosphorus. The non-phosphoric ores from Sweden were valuable for the Siemens-Martin process. Germany also imported ores from Norway, Newfoundland, Spain, and France. The Spanish ores had fifty to fifty-five per cent. iron and no phosphorus, and were ideal for steel making. The Lorraine ores were of low grade, but were important to Germany owing to their position. The western portions (French), although worked at 500-800 feet, were more than holding their own with the Germans in the eastern part of the area, where the ore was worked in open pits, which were, however, approaching exhaustion. The quality was somewhat similar to the Cleveland (Yorkshire) ore—30-40 per cent. iron, and 0.5-1 per cent. phosphorus. The French ores imported by Germany were nearly all used in the Saar.

Germany's total iron-ore imports of 21,928,000 tons in 1938 included 8,992,000 tons from Sweden and 5,100,000 from France. It was clear, therefore, that even if she obtained control of the Lorraine iron mines in a Franco-German war, she would be unable to dispense with Swedish supplies. An A.T.B. report of April 1939 estimated that, failing large reserves, she must import from six to seven million tons of iron ore from Sweden for the first year of a war starting in 1939. This was a conservative estimate.

The National Socialist Government was well aware of the urgent necessity for self-sufficiency in the manufacture of steel. In 1934 the Economic Ministry took over control of the use of iron and steel for civilian purposes, and General Thomas urged the development of Germany's vast reserves of poor-quality iron ore in the Harz region around Salzgitter. In 1936, in the Four Year Plan, it was proposed to secure from these mines some nine or ten million tons of ore (with an average iron content of twenty-five to thirty per cent.). This scheme had, however, a chequered career. It had originally met with opposition from Hitler, who believed that the project would use more steel in construction than the works could produce for some years. It was also regarded with hostility by the industrialists, who knew that it would either be unprofitable if run by themselves or entail governmental interference if it were state-controlled. The decision to go ahead with the Four Year Plan seems to have quietened this opposition for a time, but soon the use of the poorer domestic ores had increased costs considerably, while government regulations still prevented any increase in the selling price of steel. The industrialists accordingly told Goering that it was impossible for them to continue to use the low-grade ores under existing conditions, and a decree of 15th July 1937 set up the so-called Hermann Goering works (*Reichswerke A.G. für Erzbergbau und Eisenhütten*). Considerable progress was made for a time: the Salzgitter output was increased from 0·8 million tons in 1937 to 2·4 million tons early in 1939. But the development of the Salzgitter plant for the production of pig iron and crude steel was soon abandoned in view of the fact that the Reich had acquired with Austria the control of the Erzberg iron mines, and it was proposed to construct a plant at Linz; this project, too, declined in importance when plans for the conquest of Czechoslovakia and Poland opened up the prospect of the use of their productive power.

But the fact remains that on the outbreak of war in September 1939 Germany was cut off from virtually all foreign sources of supply except those of Norway and Sweden, and with her limited domestic production had ore sufficient only to keep her steel industry going at about fifty per cent. of its normal capacity. It was imperative, therefore, that the Swedish supply should continue, and should indeed, if possible, be increased. Attempts to build up ore reserves

had been fairly successful; stocks, equivalent to about nine months' consumption at the 1938 rate, had been accumulated, sufficient for the short war on which the Nazis were gambling, but if the military and diplomatic plans went wrong the situation might soon become precarious.

Non-ferrous metals and ferro-alloys. Manganese, together with other non-ferrous metals, has to be added to steel to give it strength, increased elasticity, and other properties. The course—and particularly the early course—of the war was to show that aluminium and special steels, necessary for the manufacture of armoured vehicles and the aeroplane, were of relatively greater importance than basic steel, which would have been the decisive factor in a trench war of the 1914–18 type, making heavy demands on the supply of shell steel. For the war of movement, which developed in and after 1939, aluminium supplies, copper, and the ferro-alloys were of greater importance than the British pre-war plans for economic warfare had anticipated. But these plans rightly forecast difficulties for Germany after the first year.

Germany had no domestic production of bauxite. Among the ferro-alloy metals she had no domestic production of molybdenum, chrome, manganese, tungsten (wolfram), or titanium. Imports in 1938 from non-European countries provided 84·9 per cent. of her supply of manganese, 96 per cent. of molybdenum, 92·2 per cent. of tungsten, and 85 per cent. of her nickel. She was somewhat better placed for certain of the non-ferrous metals; in 1938 she derived 49·9 per cent. of her lead supply, 83·6 per cent. of zinc, and 66·7 per cent. of cobalt from domestic production. But she relied on non-European sources for 76·8 per cent. of her copper, 85 per cent. of tin, 33·3 per cent. of cobalt, and 68·6 per cent. of antimony. The stock position in September 1939 of these metals is known with a fair measure of accuracy from the German sources which have become available since the end of the war. At the 1939 rate of consumption Germany had copper for 7·2 months; lead, 9·7; zinc, 11·5; antimony, 13·6; cobalt, 30. Of the ferro-alloy metals, nickel, molybdenum, chrome, and vanadium, stocks were each sufficient for about 13 months' consumption; tungsten for 15 and manganese ore for 18 months. The A.T.B. reports estimated that Germany would not need to import any substantial quantities of non-ferrous metals for the first fifteen months of the war, and anticipated that the first serious shortage was likely to occur in copper, followed by lead. Germany's position was eased considerably after the spring of 1940 by her acquisition of stocks and sources of supply in occupied territories, but she had always a struggle to meet her essential minimum requirements, and owed much to the ingenuity of her metallurgists in switching round her limited stocks and in substituting one alloy metal for

another. It was found possible also to reduce the alloy content of steels. Allied air bombardment did not hit the ferro-alloy, non-ferrous, and light metal smelters and refineries very heavily. Clearly, however, this was a dangerous element in the German industrial system, and the sustained efforts of the Allied economic blockade to cut off supplies from the adjacent neutrals was justified.

Liquid fuels. The extent to which Germany could cut her civilian consumption, and increase synthetic production, could not be foretold with any great accuracy in London before the war; nevertheless, the precarious state of her supplies of oil products was well known and there was perhaps more optimism as to the possibility of a crippling shortage being created in this case than in that of any of Germany's other deficiency materials. An estimate by the Petroleum Department of the Board of Trade in August 1938 said that Germany's total imports from all sources amounted to about $4\frac{1}{4}$ million tons of all products in 1937, and that in the event of a major war she might have to double her imports. It was estimated by the A.T.B. Committee in April 1939 that during the first year of war, and in the circumstances most favourable in Germany, a minimum importation of $2\frac{1}{2}$ million tons of petroleum would be required.

The broad accuracy of these estimates is confirmed by our post-war knowledge of the German oil situation. It now appears that Germany's total supply in 1938 was, in round figures, 7,100,000 tons, of which 552,000 tons consisted of crude oil produced inside Germany, 1,600,000 tons were produced synthetically inside Germany, 4,400,000 tons were imported from outside Europe, and 450,000 tons were imported from Rumania. (It may be noted that Great Britain, with a smaller population, imported 12 million tons in 1938.) Thus, the Allied blockade would cut off more than half Germany's total supply in the event of war. Her reply to this was varied. Great efforts were naturally made to increase domestic production of crude and synthetic products, and these figured prominently in the Four Year Plan of 1936. In July 1938 a further expansion of this programme was designed to produce 11 million tons of finished oil products by 1944. Domestic consumption of imported oil was drastically restricted by heavy taxation. Her military plans were drawn up with an eye to fuel economy; this would be ensured by very short campaigns of the *Blitzkrieg* type, and also by the restriction of the air force to ground support rather than sustained bombing.

On the outbreak of war her total domestic production had increased to about three million tons. The cutting off of overseas supplies left Rumania as the only foreign source of importance on which she could draw. Transportation, however, was expected to be a major difficulty here; the normal route, by sea, would be closed; a shortage of tanker tonnage could be anticipated on the Danube

route, and it seemed very unlikely that rolling-stock resources would be available for transportation overland. The British plans assumed that synthetic oil plants, commercial stocks, and the receiving and distributing points for imports of Rumanian petroleum would be particularly vulnerable to air attack. It was further assumed—rather too readily—that with Russia as a neutral, friendly to the Allies, no supplies would be made from that source to Germany. Austrian oil production, which increased rapidly under German direction, was seriously under-estimated by the Allies throughout the war.

Foodstuffs. Most of the controversial issues aroused by the blockade in the 1914–18 war had concerned the Allied stoppage of food imports, and the tendency to condemn this part of economic warfare as a ‘hunger blockade’ had been strengthened by persistent German propaganda since before the 1918 armistice.¹ In fact, food should have been one of the less serious of Germany’s deficiencies. The great bulk of her food was produced inside the country, and the famine conditions which were felt—more particularly in the industrial areas—at certain periods from 1914 to 1918 were due, at least in part, to such internal factors as the Government’s inability to prevent the holding back of supplies by the local producers, the allocation of unnecessarily large stocks to the armed forces, the failure to build up stocks of imported fertilizers, and the excessive withdrawal of labour from the land, which produced a decline in home production greater than the loss of supplies from abroad.² The probability was, therefore, that a sufficiently able, and sufficiently ruthless, German Government would be able to provide from its own resources for the feeding of the German population in time of war, although on an unattractive diet. Only in the case of fats had she a considerable import (forty per cent.) before the 1939 war, and fats were in the true sense conditional contraband, because of the use that could be made of oilseeds, butter, lard, and bacon in the manufacture of armaments.³ Carbohydrates could supply the place of fats to some extent, and there seemed no doubt that Germany could supply her civilian population with the

¹ The assumption was that the excess of civilian deaths in Germany over those of England was the unavoidable consequence of the cutting off of food imports by Allied action. Detailed figures on these lines are given by Dr. F. Bumm, *Deutschlands Gesundheitsverhältnisse unter dem Einfluss des Weltkrieges* (1928), I, pp. 22–60.

² A further reason was that the food requirements of animals were not adequately curtailed. Cf. the explanations of scarcity given by Dr. R. Kuczynski to Sir W. Beveridge, quoted in the latter’s pamphlet, *Blockade and the Civilian Population* (1939), p. 27. Fuller particulars in R. Kuczynski, *Deutschlands Versorgung mit Nahrungs- und Futtermitteln* (1926) IV, pp. 60–61.

³ ‘Butter is literally not guns but propellant’, Beveridge, *op. cit.*, p. 19. Dr. Karl Brandt, *The German Fat Plan and its Economic Setting* (1938, Food Research Institute, Stanford University, California), a detailed study from published sources by a former German professor, reached the conclusion that it was not impossible to make Germany independent of foreign fat supplies given sufficient time, but argued that, all retarding factors duly considered, it might take at least a decade and probably much more before such a goal could be attained (p. 291).

minimum of fat required for its health. It was well known to the British Government that since 1932 there had been a shortage of fats for human consumption in Germany, although imports had increased.¹ The choice between guns and butter had been made; in the autumn of 1938 stocks were estimated by the British experts at 462,000 tons, over one-fifth of the average annual supply, and it was clear that the shortage was due to increased munition production. On the other hand, the necessity of producing all her food requirements at home would, it was assumed, make a heavy drain on her resources of able-bodied manpower. In general, it can now be said that Germany in August 1939 drew only eleven per cent. (in calories) of her total foodstuffs from abroad. Large reserves of livestock were being built up.

Textiles. There was rapid expansion in the German clothing trade in the pre-war years; the development of synthetic fibres greatly reduced the dependence on imported raw materials, and the Government had thus made possible the building-up of wardrobes to an extent which provided a valuable cushion of household stocks against possible war-time restrictions. This was, indeed, a case in which the German Government was able to benefit the citizen while preparing him for battle. It was not until the Russian campaign in 1941-42 revealed the inadequacy of the synthetic material to resist extreme cold that the German Government became seriously concerned over clothing supplies.

It will be seen from the foregoing analysis that in spite of the cutting off of overseas supplies Germany could hope, with her natural resources, her considerable measure of self-sufficiency, her stocks, and her access to Swedish and Balkan supplies, to withstand economic pressure in a war with the western European powers for a considerable period; the estimate of a period of fifteen to eighteen months before Allied pressure began to have effect was not, in the circumstances, unduly pessimistic. In its paper of 9th August 1939 the E.P.G. Committee argued that the developments in the general situation since the summer of 1938 had changed the general economic situation with regard to Germany from more or less a 'sector' war into more or less a 'circle' war, 'thereby approximating closely to the situation reached in the later stages of the war of 1914'. Whereas in 1938 it had been stated that control would have to be applied to nineteen neutral countries, it was now asserted that 'the number of neutral countries likely to be able and willing to conduct an entrepôt trade for the benefit of the enemy is so much reduced as to justify the taking of more stringent measures against them'. This appears at first sight to be an unjustifiably optimistic revision; but it was recognized that

¹ The Food (Defence Plans) Department studied the food position for the I.I.C. before the war, and endeavoured to estimate German reserve stocks.

Germany might quickly overrun Poland and be able to obtain additional supplies of value in a long war, and that Russia would maintain 'an uncertain neutrality'; Turkey was expected to enter the war on the Allied side, but Spain, Hungary, Yugoslavia, Bulgaria, the Baltic States, Sweden, Finland, and Denmark would, either from inclination or from fear of offending Germany, do nothing to help the Allies, and Italy was expected to come in on the German side. It seems, in fact, that on balance the situation had worsened since the summer of 1938; Germany now had direct control of Czechoslovakia and Austria, and was in a better position to dominate the Balkans, while the prospect of Allied control of her eastern frontiers was about to vanish completely.

(iv)

Economic-Warfare Prospects in 1939

During the summer of 1939 the final touches were given to the British Government's plans for the economic blockade of Germany in the event of war. Staff was earmarked for the Ministry of Economic Warfare, which would be set up on the outbreak of war; emergency legislation was drafted; names were collected for the Statutory Lists; preparations were completed for the setting up of contraband-control bases at Kirkwall, the Downs, Gibraltar, Haifa, and Aden; the Royal Navy was instructed as to its arrangements for intercepting inward-bound shipping.

The main lines of Anglo-French co-operation had also been laid down. The French Government had fully accepted the view that economic warfare and the blockade were preponderantly British concerns. In the first stages of the war the main task would be that of contraband control, exercised by naval patrols on the appropriate sea routes. These would be mainly British, and the examination of ships' papers and other relevant evidence could best be done in the country responsible for the original interception. Other economic warfare activities could also, very often, be carried out best by Great Britain.

After preliminary discussions, more detailed plans had been worked out on this basis at two meetings in London (2nd-3rd June 1939) and in Paris (27th-29th June). There was to be a French economic mission in London, armed with considerable executive powers, and headed by M. Paul Morand. The following points had also been agreed. (1) The French accepted the British definition of 'enemy', whereby residence and not a combination of residence and nationality was taken as the main qualification, and proceeded to redraft their

emergency legislation accordingly. (2) The British were to take the initiative with regard to the negotiation of war-trade agreements with 'adjacent neutrals' whose sea communications they controlled; the French were to be primarily responsible for the negotiation of an agreement with the Swiss, and for supervising its operation. The French were to be kept fully informed as to the progress of the various negotiations; this was particularly important in the case of Belgium and Spain, as any restrictions upon the exports of these two countries might react disadvantageously upon France. (3) Export prohibitions: the Board of Trade undertook to collate the French lists of export prohibitions with the British, as far at least as goods placed on the lists for purposes of economic warfare were concerned. It was agreed that absolute uniformity was not attainable. (4) Navicerts: the British agreed that French missions abroad should have the same right to issue 'Z' navicerts (for less important consignments) as the British missions; applications which had to be referred home for decision should be dealt with in London. (5) Various zones were allotted to each navy for contraband control purposes; a contraband committee was to be attached to each ministry, with a representative of the other ministry.

On the whole, it may be said that if there were any obstacles at this stage to fuller collaboration they came from the British side. As the main responsibility for the blockade was bound to fall on the British Government, it seemed advisable to secure the chief say, and as free a hand as possible, in economic-warfare matters. The British were not willing to communicate to the French before the outbreak of war either the names of firms on the provisional statutory and other lists, or the list of goods which were to be subject to export control. In general, any form of collaboration whereby British activities had to be continually referred to Paris for approval was felt to be undesirable. The French, however, seemed willing enough to accept the British lead, and to model their own plans on the British as far as possible. Their preparations were, in any case, much less advanced; in June, when the British already had some 10,000 names on their first suspect list, the French had made no preparations of this kind. The British secured their main point in the French agreement to maintain an economic-warfare mission permanently in London.

The Allied Governments intended, however, to put into operation in the first stages of the war only a portion of the plans for the blockade which their experts had elaborated. For this there were two main reasons, technical and political. Many economic-warfare activities could not be introduced until a considerable mass of statistics as to neutral trade had been accumulated; furthermore, the Allies had no desire either to alienate the sympathies of friendly neutrals (including the United States), or break with potentially

hostile neutrals like Russia, Italy, and Japan. The main effort of the Ministry was, therefore, to be concentrated on the establishment of the contraband-control machinery, and the negotiation of war-trade agreements under which it was hoped that the adjacent neutrals would voluntarily restrict their trade with the enemy.

Among the forms of attack which were not to be launched on the outbreak of war were aerial attack on economic targets, forcible rationing of neutrals, enemy-export control, and, except in a limited degree, pre-emption. Forcible rationing had aroused some of the most embittered controversies in the last war over the question of neutral rights, and it was decided in May 1939 that it should not be imposed in a future war without special consideration by the Cabinet, which meant in effect that other methods would have to be tried first. In any case no basis for forcible rationing would exist until sufficient statistical evidence had been accumulated to prove that a neutral was importing above normal requirements.

The position was somewhat different in the case of financial pressure and enemy-export control. Germany had been a great creditor country in 1914, with bank credit abroad and with important foreign investments which she could realize; she could also float long-term loans in the United States, and could in general pay for whatever she could obtain through neutral countries. In 1939 she was without credit; she had defaulted on her long-term loans, and was unable to pay her foreign bankers; she had also antagonized international Jewry, which had been largely pro-German in the 1914-18 war. Little emphasis was, however, laid on this fact in the pre-war plans for economic warfare, which seemed to assume that Germany had the purchasing power to finance whatever she could import. The 1938 report said on this point: 'the main object of measures designed to exert financial pressure on Germany would be to take all possible steps to prevent this country assisting neutrals to lend to Germany. The measures which are adopted primarily for the purpose of conserving our own financial resources for war purposes will, incidentally, have the result of furthering that object, and we do not consider that any regulations or restrictions of a general character are required for the purpose of exercising financial pressure on Germany over and above those which will be required to conserve our own financial resources.' It was true that with the declaration of war and the closing of Britain and the British Empire to German exports, Germany would lose her main source of free *Devisen*, secured to her under the Anglo-German Payments Agreement. But various opportunities remained. German insurance companies, for example, were prominently represented in most countries of the world and the German insurance market abroad was second only to the British. In addition to her direct operations Germany had for some generations specialized

in reinsurance, and a great part of the world's reinsurance found its way sooner or later to that country. She enjoyed, therefore, a substantial foreign exchange revenue from her insurance business, and the organization also served incidentally as a channel of political propaganda and of commercial and other espionage. Although her shipping intelligence in connection with insurance was in no sense comparable with that of Lloyds, it was by no means negligible. But, above all, the fact that virtually the whole of German foreign trade was on a barter basis worked through clearing agreements suggested that in suitable circumstances it would be at least as profitable from the point of view of economic warfare to hamper her exports as to devise means of restricting her imports of key commodities.

From one quarter it was argued that whatever the Allies did Germany would succeed in spending all the foreign purchasing power she could acquire, and that it should be the object of economic warfare to guide as much as possible of this purchasing power towards goods which were not of the first order of necessity for winning the war. Departmental zeal in Germany would tempt officials to buy whatever was available, and by making certain classes of food available the Allies would be able to tempt her to buy quantities which in terms of her general war needs she could not afford. Mr. J. M. Keynes, who urged this plan on the Ministry in the first days of the war, called it the 'policy of temptation'. Germany's purchasing power could also be curtailed by forcing up the prices of goods which she wished to buy, and by forcing her to sell her exports cheaply by methods of cut-throat competition. The Ministry, however, felt no confidence in its ability to execute these plans. It pointed out to Mr. Keynes that there was practically no foodstuff which could not be used for some other purpose; it seemed highly doubtful whether the efficient totalitarianism of Germany would allow food purchases beyond the absolute minimum necessary for the war period; the flooding of the markets of contiguous neutrals might prove a double-edged weapon, as the neutrals might be tempted to re-export to Germany; the Germans were more experienced at the game, and it was necessary for British exports to overseas markets to be extended in order that Britain's own supplies of foreign exchange could be sustained. The most practicable policy would be to cut off German exports to overseas markets. But this would necessitate the reversal of international law that enemy exports other than contraband, if carried in neutral bottoms, were exempt from seizure, and the Government was not prepared to do this unless German breaches of international law justified this action as retaliation.

The pre-empting of native produce was also regarded with little favour before the war. 'Not only is it a matter of serious difficulty to gain sufficiently complete control of any commodity, but, except for

commodities of which the whole world supply is small, the strain on the finances of this country may be very great. If very large sums were involved, whether the Treasury undertook to pay in foreign exchange or paid sterling and left the neutral traders to obtain exchange, the effects would be equally disastrous.'

So the general position at the outbreak of war in September 1939 was that the Allies had before them as many as three possible programmes of economic warfare. The plan actually put into operation was in its essentials that of the earlier stages of the First World War; a more drastic programme, with the use of such weapons as the control of enemy exports and aerial attack, would be put into operation at a later stage if the conduct of the enemy justified these practices as reprisals. Both these plans, however, were conditioned by the preoccupation with neutral rights which, in those days of totalitarian ruthlessness, was soon to appear sadly irrelevant; a more drastic and comprehensive campaign became possible and necessary when the German war machine had simplified the problem by destroying the greater part of the neutral shield around its own frontiers in the West. This third programme came into operation only after the fall of France.

In studying these pre-war plans we must remind ourselves how intimately the habits of political thought and action which brought the country to war were concerned with the rights of small, and would-be neutral, states; it is a matter of simple justice to the architects of these plans to say that every care was taken to maintain legitimate neutral rights and traditional standards of good conduct in this field of warfare. References to what was called the 'moral' aspect of blockade policy were frequent in the discussions; much that was assailed as half-heartedness or 'appeasement' by critics of the Ministry in the winter of 1939-40 was no more than an automatic acceptance of these conventional standards of right conduct. To this extent the plans can perhaps be criticized as an attempt to fight one war in terms of its predecessor; in the war that was looming ahead there could be few genuine neutrals of the nineteenth-century type, and the problem of the legal position—and the just deserts—of the confessed 'pre-belligerent' had still to be solved. But, subject to this possible qualification, we can say that the plans of the new blockade had been thoroughly laid; the range of activities of the new Ministry during the first phase of the war is impressive, and it is, indeed, difficult to see how anything more could have been attempted in the available time and circumstances.

PART I

The Traditional System
September 1939—June 1940

CHAPTER I

GENERAL SURVEY

September 1939—June 1940

DURING the first phase of the war, from September 1939 to June 1940, the story of economic warfare was one of great expectations. During the second phase, from July 1940 to June 1941, there was still, in spite of disappointments, a tendency to exaggerate the possibilities of the economic blockade. Then came the entry of Russia and the United States into the war, and the high strategy of the Allies turned more and more to the preparation and launching of great military offensives; the economic campaign, although it was being waged with increasing efficiency, nevertheless ceased to be regarded as one of the main instruments of victory. It is in fact one of the broad paradoxes of this story that as the effectiveness of the economic weapons increased their reputation declined.

These fluctuations in reputation had a considerable, and on the whole a rather unfortunate, influence on the work of the Ministry of Economic Warfare. Too much was certainly expected of it in the winter of 1939-40. This was a time of almost complete quiescence on the part of the Allied fighting services, and both Government and country regarded the blockade as Britain's chief offensive weapon, and looked to it for decisive, or at any rate dramatic, results. The very completeness of the pre-war planning was for this reason somewhat embarrassing, as it provided a profusion of expedients, and there was a temptation to start too many things at once. Enemy-export control, for example, was introduced on 27th November 1939, and in the First World War not until 11th March 1915; navicerts were instituted in this war on 1st December 1939, and in the First World War not until 11th March 1916; negotiations were opened with nearly all the adjacent neutrals in the first days of September 1939, and only at intervals throughout the first war. In many cases, of course, the delay in the earlier war had been due merely to the necessity of learning from experience, and it was right to profit from it now. But it was impossible to go beyond a certain pace: the staff was not sufficiently large or sufficiently trained to cope with too many tasks, and the form of, and necessity for, certain kinds of pressure could not be accurately gauged until a sufficient body of war-time statistics had been accumulated. One aspect of the Ministry's first winter was, therefore, a feverish administrative activity which

gave a fallacious sense of achievement, and helps to explain the somewhat incautious statement of the Minister, Mr. R. H. Cross, on 17th January 1940, that at the end of four and a half months of war Germany was in something like the economic straits that she had been in after two years of the First World War.

Moreover, while the Ministry was expected to carry out a large-scale economic offensive with an inexperienced staff and with an improvised and still developing organization, its effectiveness was seriously hampered by the ban on the use of such weapons as the bombing of industrial targets in Germany, the forcible rationing of neutrals, and pre-emption on any really effective scale. There were, furthermore, overriding political considerations at work to prevent any serious exasperation of the more important neutrals—Italy, Japan, the U.S.A., and the U.S.S.R.—and this in turn limited pressure on the smaller neutrals (enemy-export control, for example, had to be administered very leniently for some months after its introduction). In general, this was the period of ‘phoney war’, when in the military sphere it was still believed—or hoped—that defence was stronger than attack and that the Allies’ best chance of winning the war in the West was to remain passive there as long as possible, to build up Allied armaments, and to tempt the Germans to attack elsewhere. Emphasis was on caution, and the conciliation of the neutral: the Ministry could never be so offensive as the economic offensive demanded.

Belief in the possibilities of economic warfare was, however, kept alive in the highest circles by plans for Allied offensives which were discussed more or less optimistically during the winter. All was quiet on the Western front and the French were anxious that it should remain so, but they favoured offensives which would divert the German armies to other spheres, and made proposals for action in both Scandinavia and the Near East. In both instances the hope of dramatic economic advantages was put forward to justify plans for which the Allies were embarrassingly ill-equipped, and although sober reflection prevented their execution, they expressed and encouraged many romantic notions about an economic short-cut to victory.

In the first case it was hoped to cut off Swedish supplies of iron ore from Germany, and as early as 19th September Mr. Churchill drew the attention of the War Cabinet to the possibility of laying mines in Norwegian territorial waters as a means of forcing into the open sea ore ships sailing from Narvik to Germany. No action on these lines was taken at the time, but the possibilities continued under discussion, and after the Russian attack on Finland the War Cabinet discussed in December the possibility of Allied military intervention in the event of a Russian attempt to control the Narvik ore route after

a Finnish defeat. The French went further. M. Daladier was greatly impressed by a report that Herr Fritz Thyssen, now a refugee in Switzerland, had told Hitler and Goering that the war would be won by the side which secured control of the Swedish ores. At the fourth meeting of the Supreme War Council on 19th December he therefore proposed a diplomatic *démarche* to Norway and Sweden which would lead them to invite Allied support against the Soviet Union and thereby enable Allied forces to control the ports of Luleå and Narvik, from which Germany drew the bulk of her supplies of the Swedish ore.¹ The unqualified refusal of the Swedish and Norwegian Governments to depart in any way from the strictest neutrality was the main reason for the failure of this and subsequent plans for Allied intervention, but there is a surprising contrast between the readiness of the French to involve themselves in war with the Soviet Union, and their anxiety to avoid all action which would encourage a direct German attack on France.

Other plans were under discussion during the early months of 1940. After the Soviet-Finnish armistice on 12th March 1940, the French Government continued to urge action against ore shipments by mine-laying in Norwegian waters, and proposed that the larger plan for occupying the ore-fields should be put into operation as a reply to any German counter-measures. The British proposed what was known for security reasons as the 'Royal Marine Operation'—a scheme for dropping mines on German inland waterways. This plan, which was sponsored by Mr. Churchill, was also influenced by belief in the possibility of economic advantage, although the real purpose was psychological: it would mean that the Allies had, at least in a small way, seized the initiative.² M. Reynaud, who succeeded M. Daladier as Prime Minister on 21st March 1940, again proposed mine-laying and the occupation of the ore-fields, and also suggested the cutting off of Russian oil supplies to Germany by bombing the Caucasian oil centres. For some months the French had looked hopefully on the prospect of building up a Balkan bloc to resist Germany, and were even considering the possibility of military operations from Salonika with Rumanian oil as a possible objective. All these ideas came under review at the sixth meeting of the Supreme War Council on 28th March, and Mr. Chamberlain emphasized the obvious difficulties of the more ambitious French schemes; he thought that the main weapon must be the blockade, but that it was unwise to expect victory through short cuts. M. Reynaud argued that it would be impossible to maintain belief in the power of the blockade unless

¹ The iron-ore question is dealt with in more detail below, pp. 180-92.

² Mr. Churchill's detailed plans for this operation are given in *The Second World War, Vol. I, The Gathering Storm*, pp. 436, 453-57, Appendix Q. On the iron-ore question, pp. 420-24, 430-33.

Germany were forced to draw on her stocks of oil and raw materials. He was opposed to the Royal Marine Operation because of the danger of German reprisals against French aircraft factories, but it might be agreed to if the French proposals were accepted. In the end, mines were sown in Norwegian waters on 8th April, and the German attack on the following day ended speculations about the initiative.

These broad strategical conceptions cannot be understood save in the general setting of Allied policy,¹ and they are mentioned here only to illustrate the hold that economic warfare had gained on the imaginations of the Allied leaders. Nothing came of them, and they probably fostered a certain impatience with the more systematic routine of general pressure which the Ministry was seeking to perfect. It was easy, when one's imagination was fired by the vision of bold plans to cripple Germany's iron-ore supplies with one stroke and her oil supplies with another, to doubt the necessity for the apparently trivial restrictions against which neutrals protested so shrilly. Only in this way can one explain the contrast between the prominent place which the blockade held in the high strategy of the Allies, and the many obstacles which hampered its application.

All these circumstances help us to understand the fluctuations in the Ministry's reputation at this period, and the somewhat confusing pressures which determined the course of its early development. Too much was certainly expected of it; and then it was blamed for over-optimism. By March 1940 it was beginning to be the target for press and parliamentary criticism; it was said that the blockade was 'leaking like a sieve' as a result of 'economic appeasement', and the department was called by somebody the 'Ministry of Wishful Thinking'.² This line of criticism quite swamped the occasional protests against the blockade, such as Miss Vera Brittain's article, 'It's War on Babies', which appeared in the *Daily Herald* on 15th November 1939. The tendency to dramatize the blockade, which was increased by the absence of any very stirring events on the fighting fronts, was, however, of some value as part of the country's general propaganda abroad. Thus, in the early months of the war, the B.B.C. foreign broadcasts called attention to the seizure in September of a parcel of coffee from Mocha, consigned to Hitler, although coffee had been restricted in Germany for years. It also announced that a consignment of rat poison for Germany had been detained and then immediately

¹ The full story in its political aspects will be told in due course in the official history of British foreign policy in the Second World War.

² And perhaps the German Ministry of Propaganda at this period might have been called the Ministry of Wishful Sinking. One German official told the American journalist, William Bayles, that according to his estimates Germany had just begun to sink the entire British mercantile marine for the third time. Germany, too, was relying on her form of the blockade as her sole offensive weapon at this moment, and was tempted to allow herself a little exaggeration (William D. Bayles, *Postmarked Berlin* (1942), p. 68).

released by the Ministry as a thoroughly suitable import for Germany.

The Ministry, while sanguine on the whole as to the possibilities of economic warfare, was struggling too desperately at this period with its initial problems of organization and intelligence to be able to think very seriously of final victory. The purpose of this chapter will be to sketch the main lines of development of its work until the fall of France, and it will be convenient to examine first its views on Germany's war-time economy.

The Ministry started the war with the detailed studies of German and neutral economy which have been summarized in the Introduction (pp. 24-36). This information, contained in some 2,000 files and supplemented by certain valuable private collections that were put at its disposal, formed the nucleus of the Intelligence side of the Ministry's registry, and was rapidly expanded as fresh information was collected, but until some months had elapsed its policy was based very largely on pre-war assumptions, and was necessarily of a somewhat generalized character. The starting point of all its plans at this period was the assumption that since financial stringency would force Germany to import only what was indispensable to her single aim of prosecuting total war, the stoppage of any German imports would contribute to her ultimate defeat. It was assumed that the ultimate unendurable scarcity of many things would bring about an economic breakdown rather than the absolute lack of any one or two specific commodities. 'If Germany be no Achilles with a single vital spot', said an early memorandum, 'she is vulnerable and can be bled to death if dealt sufficient wounds'. This may be said to have remained the basic assumption of the Ministry throughout the war, although the search for Achilles' heel—some specific shortage which would bring the whole industrial machine to a standstill—was never abandoned, and produced even at this early stage of the war a special interest in oil. The information reaching the Ministry from many sources was summarized in a monthly report on economic conditions in Germany called for by the War Cabinet, and read with close attention by the Prime Minister, Mr. Neville Chamberlain, among others. Some of his personal comments were passed back to the head of the Intelligence department. (This particular series of reports ceased, however, to be sent to the War Cabinet in April 1940 as it was not considered to be sufficiently 'red hot and fresh'.)

It is clear from these reports that German efforts to obtain last-minute supplies of deficiency commodities before the outbreak of war were believed to have met with little success, except possibly in the case of lead, manila hemp, and sisal. On the other hand, it was thought that the advance into Poland had made Germany potentially self-sufficient in lead and zinc (except electrolytic) and had given her

valuable supplies of green fodder and possibly of dairy products. The capture of the Teschen mines was expected to improve the supply of German coking coal. In the first weeks of the war some surprise was expressed at the apparent urgency with which the Germans seemed to regard the acquiring of further supplies, not only of strategic raw materials such as petroleum, iron ore, and non-ferrous metals, but also of commodities such as grain, manganese, and even lead, of which Germany had hitherto been estimated to hold a year's supply or more. There was not, however, sufficient evidence to determine how far these measures were due to unexpected weaknesses in German economy, or to the Government's determination to place the country on a complete war-footing as soon as possible. Later information suggested that the Ministry's pre-war estimates were inclined to be too liberal to Germany in the case of several important commodities. There seemed little doubt that in the early days of the war, before expenditure had been regulated in the light of current supply, some stocks were being reduced at a rate which alarmed the German authorities. By the spring of 1940, however, it appeared that the German Government had taken steps to determine and regulate the rate of consumption. There was, as could be expected, some evidence of the worsening of internal economic conditions; the severe winter was known to have placed considerable strain on food supplies and transport, and this was believed to have adversely affected civilian morale. Three plans for internal finance and labour management were known to have been tried and abandoned between August and December 1939, after which Field-Marshal Goering was appointed head of a new General Council for War Economy. By the end of the winter, however, it appeared that the counter-measures taken by Germany in expectation of an Allied blockade had been successful in preventing serious embarrassment to her supplies, except in the case of certain ferro-alloys, lubricating oils and greases, rubber, and textiles, and that the vigour and adaptability of German economic policy had been underrated. In view of the later accusations of wild exaggeration of Germany's economic weakness, it is interesting to note the cautious tone of the comments on Germany's foreign trade made in an M.E.W. Intelligence Report of April 1940:

The directional flexibility of Germany's foreign trade has been very striking; as a weapon of war it can be moved almost as quickly to exploit the opportunities of time and place as any military force. In those countries where some free exchange was to be gained, where Allied competition was to be expected on a serious scale and where, in general, her political hold was less secure, Germany has vigorously pushed her exports by every means in her power, including bluff. These countries include the northern neutrals (less the Baltic States), Switzerland, and Italy. In all these countries she had, by March,

either built up clearing balances or so reduced her clearing debts that the way was open for expanding her purchases. In the Baltic States and in south-eastern Europe, on the other hand, Germany's policy has been quite different. In Latvia, for instance, there are complaints that, though Germany expects to be able to take practically the entire produce of the country at the old prices, the prices of German goods have risen from 15-100 per cent., deliveries are delayed and shipments reduced. In Estonia the prices of German dyes have risen 75-80 per cent. and terms of payment are almost unacceptable. In Bulgaria a point has been reached where steps have had to be taken by the Bulgarian Government artificially to restrict exports. To Hungary, it is true, there has been a steady stream of exports, but this seems to be due more to Hungary's eager buying for her defence needs than to active German salesmanship. In Rumania, Germany has used the weapon of devaluation to cheapen her purchases. The only countries in this part of Europe where her foreign trade has conspicuously failed, Greece and Turkey, are those where her political influence is weakest.

The comments of German officials and industrialists since 1945 have tended to deplore the lost opportunities of German economic leadership in this early phase of the war, and to point out that industrially Germany was well equipped for war only if stronger opponents did not enter the struggle, or if the war were short, or if the conflict were not shifted to an armament race in the sphere of mass production. It is argued that, instead of preparing for such an all-out struggle, the German Government tended to mark time and even to relax its effort. German propaganda took pride in the announcement that the usual disorganization resulting from the outbreak of war had been avoided, and in a speech in Vienna on 14th October 1939, Reichsminister Funk actually said, 'the plans which were previously laid must . . . in many cases be changed, economic life not having to be changed over to the full extent anticipated by the mobilization plans'. Ley, on 18th November, said that 'to-day economy is again running normally, performance has nowhere sunk . . .', and a leading German economic journal spoke on 10th November of 'a war economy as close as possible to that of peace'. From this point of view Goering's new appointment in January 1940 was, for the Germans, ominous; it meant that the ruthless uniform control of German war economy, for which Funk had been nominated in 1938, and which would have provided the discipline, co-ordination, and strict totalitarian control needed for the achievement of industrial superiority in an exhausting future war, could not be effectively exercised. Total German industrial production in 1940 showed in fact a slight decrease below 1939. The numbers of unemployed remained relatively low, but the decisive factor here was the incorporation of labour in the armed forces, which left the total number of industrial workers in the old Reich in 1940 about ten per cent. below that of 1939. The basic

materials industry did, however, show a rise of production in 1940 as compared with 1939, and there was a corresponding fall in various branches of the consumer goods industry.

Germans who, since 1945, have criticized the failure of the Nazi war effort on these lines, argue that the intoxication of the early military successes, in Poland in 1939 and in western Europe in the summer of 1940, caused a relaxation of economic effort, and that the German leaders considered it unnecessary to devote all energies to increasing armaments. These views no doubt owe much to chagrin and hindsight, but it is clear from the course of the war after 1942 that there is considerable justification for them. The Ministry came very near at the time to an understanding of this point, although it tended throughout to think too exclusively in terms of the mere cutting-off of external sources of supply, and was over-optimistic in its assumption that this alone could vitally weaken the German war effort. The M.E.W. Intelligence Report for January-February 1940 sensed the conflict of policy behind Goering's new appointment, and remarked, 'it is probable that Germany intended her war to be short and had based her internal economic plans upon 1942 as the probable date for a major war. If this is the case the signs of administrative hesitancy which have been apparent in the past two months need no further explanation'. It was also quick to notice that the setting-up of the new General Council for War Economy was followed by no marked development in policy. And throughout the winter the Ministry's reports insisted on the general thesis that time was in favour of the Allies, whose economic situation was 'in most ways greatly superior to that of Germany', and that it was not easy to see 'how Germany can successfully overcome the increasing difficulties which she will encounter in the economic sphere'. This presupposed, of course, a degree of military success on the part of the Allies sufficient to hold the German attacks and to place a continuous strain on German war economy, and it presupposed a progressive development of the Allied armaments industry. It also presupposed German inability to develop her own war industries beyond their existing state, not, however, because of complacency, but because German labour was believed to be already subjected to such an immense strain that its productivity could not be maintained. Broadly speaking, then, the Ministry was right in its general estimate of Germany's economic chances, even if it was sometimes right for the wrong reasons.

The Ministry's conviction that Germany had no considerable safety margin in stocks was also justified, although this point would not be of much meaning to the Allies unless German resources were subjected to a rate of attrition comparable with that of the First World War or of the later years of the Second. If anything the Ministry tended to over-estimate the German stock figures after the

beginning of 1940—partly, it would appear, to avoid accusations of complacency!

In this connection the oil figures are illuminating. On the outbreak of war all imports except those from Rumania and Russia were stopped by the blockade, and Germany was thus limited to an oil income of approximately 455,000 tons a month, made up as follows:

Crude oil from German and Austrian fields	80,000
Synthetic oil	120,000
Tar oils, alcohol, and benzol	75,000
Imports from Rumania, averaging	120,000
Imports from Russia, averaging	60,000

A document drawn up by the *Rüstungs- und Wirtschaftsamt* in July 1939, which has become available since the war, gives a summary of German oil resources for war as of 1st August and 1st October 1939. It provides a striking confirmation of the pre-war findings of the Industrial Intelligence Centre, and gives the total stock as 2,134,000 tons on 1st August 1939. Stocks of motor gasoline were equivalent to only two months' normal consumption; under mobilization conditions and with indigenous production it was anticipated that they would suffice for four or five months. Aviation-fuel stocks were equivalent to about three months' consumption. The overall oil stock position was in fact so low that there was considerable apprehension in high German circles at the lack of substantial reserves. These apprehensions were, of course, happily dispelled for the Germans, first by the unexpected speed and economy of the campaigns in Poland and France, and secondly by the capture of large quantities of oil in western Europe in the summer of 1940. Total oil consumption during September 1939 for the German Army and Air Force was approximately 155,000 tons, of which under 100,000 were expended in the Polish campaign. The total oil consumption of the campaigns in Norway, Denmark, the Low Countries, and France was under 500,000 tons, or an additional consumption over the 'normal' (i.e. the first four months of 1940) level of under 300,000 tons. The quantity of oil captured in 1940 was not less than 1½ million tons, and may have been as much as two million. The interesting result of all this was that the British experts came to doubt their own figures, and consistently exaggerated the German oil stocks for the remainder of the war. The I.I.C.'s pre-war estimate of German stocks was about two million. The question of Germany's oil reserves was re-examined in London early in 1940 and it then appeared so improbable that she would have embarked on the war with such small stocks that it was assumed that the British figure was wrong—in other words, that Germany had some hidden reserve—and the estimate was revised by increasing the I.I.C. figure to five million tons. (An estimate made at that time by the Soviet Government gave a figure of six million tons.)

This tendency to over-estimate German oil stocks by some two million tons continued throughout the war.¹

It was with this general picture of German economy in mind that the Ministry proceeded to launch its campaign in the winter of 1939-40. Many forms of attack were, as we have seen, impracticable at this stage of the war, although in view of the wide field of action available it may be doubted whether, even in more favourable conditions, much more could have been achieved in the time available. The first problem was clearly to set up an effective system of contraband control, and to elaborate in London and the 'adjacent-neutral' countries the administrative machinery necessary for adequate information as to the destination of neutral imports. The development of this blockade system is described in Chapter II; the essential features may be summarized as follows. At the beginning of the war contraband-control bases were set up in the British Isles to control the two main streams of traffic to the Continent; in the Mediterranean eastbound traffic was covered by a control base at Gibraltar, and traffic westbound into the Mediterranean through the Suez Canal by bases at Port Said and Haifa. By the end of September 1939 the necessary naval forces were operating to control these routes; all vessels sailing to 'adjacent-neutral' ports were intercepted and sent in for examination, unless they had a naval clearance or could succeed in evading the patrols. After examination of the cargo the information available was scrutinized by the Intelligence and Prize Departments of the Ministry, and the Contraband Committee had then to decide whether the cargo should be allowed to proceed or should be seized and placed in the custody of the Marshal of the appropriate Prize Court. This was what was sometimes called the 'basic' or 'traditional' system, and until the end of 1939 the greater part of the energies of the Ministry was devoted to the task of coping with the congestion of business resulting from the thoroughness with which interception was taking place.

No effective system of contraband control was possible in the Pacific. German deficiency commodities could pass to Germany through Soviet ports in the Far East from Japan, the Philippines, American countries, and the Netherlands East Indies. But the Japanese Government made it very clear that it objected to the interception of neutral vessels in the vicinity of the Japanese islands, and the United States Government similarly objected to the setting up of contraband control in the Caribbean. Pre-war plans had pro-

¹ The British estimate of five million tons early in 1940 was not, however, truly comparable with the German figure of 2,134,000 as the former included oil in process and transit. In July 1943 the United States Enemy Oil Committee estimated the total German stocks at 1st January 1943 at five million tons, as compared with a British estimate of three million tons. A compromise figure of four million tons was agreed on, which post-war information shows was again about two million tons too high.

vided for a contraband-control base at Kingston, Jamaica, and if patrols had been allowed to operate from this base the flow of goods from Atlantic ports to Japan or directly to Siberia could have been effectively controlled. There was a limited possibility of interception by British warships of vessels after they had passed into the Pacific through the Panama Canal, but the neutral would then have had to be sent up to Vancouver or Esquimalt. Interception was also possible in the South China seas, where British ports were available (Singapore or Hong Kong). But even where political difficulties did not arise, the distances to be covered, and the lack of naval forces, prevented any thoroughgoing arrangements. There were, in fact, only two interceptions in the Pacific, namely of the two Soviet ships, the *Selenga* (January 1940) and the *Vladimir Mayakovsky* (February 1940). These problems are discussed in more detail in connection with the various countries concerned.

Already before the end of September 1939 protests were being made at the delays to neutral shipping resulting from the contraband control in European waters, and plans were under discussion for the extension or mitigation of the system. The application of these plans, in so far as they were designed to help the neutrals, naturally depended on the willingness of neutral governments and shippers to take advantage of them and to co-operate with the Allies in various other ways, so that a considerable number of alternative methods of control were in operation at the same time. The chief advantage that the Ministry hoped to draw from this situation was to induce neutral governments, companies, and traders to enter into voluntary agreements with the British authorities with regard to their trade with Germany. Such agreements would serve the treble purpose of ensuring a more efficient control of exports from adjacent-neutral countries to Germany, reducing the amount of work in the Ministry, and avoiding political tension. The Ministry had to recognize, however, that if the effects of contraband control were excessively unpleasant, neutral irritation might take a nationalistic form which would be detrimental to the conclusion of any such agreements and understandings, and which might be strong enough to force it to relax the control without corresponding guarantees. On grounds of general policy the British Government wished to reduce friction with neutrals, and particularly with Italy and the United States, to a minimum. It would, indeed, be quite wrong to assume that the delays to cargo resulting from the 'traditional system' were welcomed by the Ministry as a bargaining weapon; the weapon might so easily prove to be double-edged. The plain fact is that far more neutral ships came into contraband-control bases, unescorted, during the first weeks of the war, than the Ministry had bargained for. The Ministry was quite content to rely for bargaining purposes on the minimum of

delay inevitable in the circumstances, and while it pushed ahead with its negotiations with neutral governments and traders, every effort was made to speed up and otherwise improve the routine working of the system.

The basis of most of the Ministry's plans for speeding up the contraband-control machinery was to secure time for the consideration of cargoes before the arrival of the neutral ship; neutral shippers were therefore urged to send in advance by air mail or otherwise a copy of the ship's manifest, and consignees were urged to furnish in advance a guarantee against the re-export of the consignments which they were expecting. In certain circumstances a ship might be allowed to proceed to a neutral destination after giving a guarantee to return to an Allied port any items of cargo which the Contraband Committee might later decide should be seized. These 'hold-back guarantees' originated in the middle of September 1939 as a result of a suggestion made by the United States Black Diamond Line. At the beginning of December 1939 the 'navicert' system was introduced in the United States, Argentina, Uruguay, and Brazil; its purpose was to enable the overseas shipper to submit details of goods which he wished to send to Europe to the British mission in the exporting country, which could then, after making the necessary enquiries in the Ministry and elsewhere, issue a 'navicert'—a 'commercial passport'—covering any consignment which did not appear liable to seizure as contraband. The system obviously benefited the exporters, and was recommended by Mr. Cordell Hull on 4th September; it was voluntary, in the sense that the shipper could use it or not as he saw fit; nevertheless there was always a danger that it would be attacked as an interference with neutral sovereignty, and criticisms on these lines played a certain part in the considerable phase of tension which arose in the United States over British blockade policy in January 1940. Similar machinery for the control of contraband at source was being developed during the winter of 1939-40 in the Dominions, Colonies, and India. An attempt to deal with the special problems of the Mediterranean was the issue of what were called 'mewcerts' by the naval authorities at Alexandria. These various devices gave the Ministry a good many headaches; the hold-back system in particular was obviously open to abuse, and the whole machinery needed to be kept under close supervision. At the same time the Ministry was endeavouring to improve the consular machinery, the purpose of which was to gain accurate information in the various adjacent-neutral countries as to the success or evasion of the blockade.

The second main feature of the Ministry's work in this period was the conclusion of war-trade agreements with the adjacent neutrals.¹

¹ The draft agreement, which formed the starting point of all the negotiations, is given in Appendix I.

The basic aim of these complicated negotiations was to ensure that the neutrals would prohibit altogether the re-export to Germany of goods reaching them through the Allied controls, and would limit the sale to Germany of other goods to 'normal' pre-war figures. In return the British Government agreed in each case to facilitate the passage through the controls of goods covered by the agreements, and to refrain from demanding individual guarantees against re-export. Many exceptions to, and modifications of, this basic plan had to be accepted by the British negotiators and it had first of all to be decided in each case whether the neutral government was sufficiently efficient, honest, and courageous to maintain its obligations under an agreement against German or internal pressure. For these reasons no attempt was made to negotiate agreements with the Baltic states and no serious progress was made with the Balkan states other than Greece. Italy was not prepared to sign a war-trade agreement on the usual lines, and Turkey as an ally had to be dealt with on a somewhat different basis. Russia also refused to consider anything in the nature of a war-trade agreement, but professed willingness for limited barter deals, and the British Government hesitated between the promotion of the latter and the exertion of pressure on Russia by a tightening of the contraband-control system. Negotiations for agreements were, however, conducted with Norway, Sweden, Denmark, Iceland, Belgium, Holland, Switzerland, Hungary, and Greece, and these, together with the similar negotiations on commercial questions with Italy, Turkey, Spain, Portugal, and Russia, made up a large part of Britain's war-time diplomacy in this period. The most important of the agreements were those with Sweden (signed on 7th December 1939) and with Belgium (signed on 11th December 1939). Later agreements, such as those with Norway, Holland, and Denmark, had scarcely been concluded before the German invasions. These negotiations are discussed in some detail in Chapters IV and V below.

Little effective contact could be maintained with the Baltic states, whose independent life continued only as long as their two dreaded neighbours postponed agreement as to the date of their execution. Latvia, Estonia, and Lithuania signed non-aggression pacts with Germany on 7th June 1939, and on 29th September, 5th and 10th October respectively the three states signed treaties of mutual assistance with the Soviet Union. Imports to the three states passing through the British contraband control were carefully watched, and the main blockade problem for them during the winter was to find means of exporting their goods through the German controls. The Ministry was anxious to encourage these exports as a means of diverting such Baltic products as shale oil, timber, flax, butter, meat, and eggs from Germany. After a fairly quiescent period in September 1939, German pressure increased, and in the first week of October a

number of neutral ships were seized in the Baltic; again, towards the end of the month, Germany detained a number of ships flying the Estonian and Latvian flags and carrying cargoes for neutral countries, and demanded a guarantee against their seizure by the British. This pressure continued. The states sought various alternative routes through Scandinavia, Finland (interrupted by the Russo-Finnish war), and in the early months of 1940 through Russia to Odessa or Constanza and so to Istanbul. A German-Latvian trade agreement was signed on 22nd December, a German-Estonian agreement on 12th March, and various arrangements were made with Lithuania, although all three states were understood to be threatened with a German demand that they should trade exclusively with Germany and Russia. Their resistance was strengthened by the fact that Germany felt herself to be in a position to impose very stiff terms. A Latvian trade delegation actually arrived in London on 21st February. But the end came with the German invasions of Denmark and Norway; Britain immediately issued instructions that no further navicerts were to be granted for the Baltic states, and for the detention of neutral ships bound for the Baltic. There were some half-hearted attempts by the three states to open alternative routes; but they were finally absorbed in the Soviet Union at the beginning of August 1940.

At the other end of Europe were the Iberian states, Spain and Portugal, whose history, looking to the future of the blockade, was the opposite of that of the Baltic states. After the fall of France they became, indeed, the most important of the 'adjacent neutrals'. But until that event they had not been of primary importance to the blockade, and it will be convenient to postpone a detailed account of the Ministry's relations with them until the second half of this volume (Chapter XV). Their communications with Germany before the fall of France were all subject to Allied naval control. Significant quantities of Spanish exports of coal, iron ore, pyrites, copper, and lead could reach Italy, the most likely leak, only by sea routes; British control at Gibraltar and French control of the routes between Italy and the east coast of Spain were therefore theoretically adequate to prevent the passage of Spanish goods through Italy to Germany, although leaks certainly occurred. A war-trade agreement was negotiated as part of an Anglo-Spanish Payments Agreement in March 1940, and it was thought sufficient in this to obtain guarantees against the re-export and transit of the more important imported goods. France, in January 1940, signed a trade agreement which gave Spain much-needed supplies of wheat. The key to the Spanish situation was the dangerous economic crisis which had followed the civil war; the Allies believed that the best way to keep her neutral was to wean her from Axis control by the provision of essential supplies, and, with many changes and crises, this policy was continued throughout the

war. Portugal, although politically more friendly, was in economic matters less manageable, and all attempts to secure a war-trade agreement with her failed during the first period of the war.

A number of problems had to be worked out in the various war-trade negotiations, and the experience gained was of great use in neutral-trade negotiations later in the war. The Netherlands negotiations in particular demonstrated the difficulty of reaching agreement with a stubborn negotiator when the weapon of forcible rationing was not normally available. As long as the sole ground for seizure was evidence of enemy destination no machinery existed for preventing the accumulation of large stocks, and in certain cases, particularly oil stocks in Holland, these had become so large by December 1939 that if they had been rationed on a basis of pre-war trade the allocation for 1940 would have been practically nil. The Dutch, however, were pressing for counter-concessions and were quite content to allow this situation to continue. They went so far as to set up what was virtually a counter-blockade by holding up supplies to Britain of maize starch, cocoa-butter, and similar products manufactured from materials imported from British sources. This situation illustrated a further problem, namely that of ensuring supplies to Britain of raw or finished materials from adjacent-neutral countries without facilitating exports of the same or similar products to Germany. In Denmark this problem arose in connection with the importation from overseas of feeding-stuffs and fertilizers, which produced foodstuffs exported to both Germany and England: the same pig could produce bacon for England and offal for Germany, and so on. Another problem was that of transit trade, which arose in several countries, and was a particularly thorny problem in the case of Holland and Belgium, who claimed to be bound under the Mannheim Convention to continue to facilitate the passage of supplies through their territories to Germany. In all such cases the neutral tended to take his stand on 'normal trade', a policy which seemed to offer reasonable economic conditions with the minimum of friction with both sets of belligerents, and the negotiations reduced themselves in practice to haggling over the details of what could be termed 'normal trade'. The limitations of this policy were particularly marked in the case of Italy; she was usually able to furnish reasonably satisfactory evidence that her imports were not intended for re-export to Germany, but this did not alter the fact that as a confessed pre-belligerent her growing stocks might ultimately be used against the Allies themselves.

The third main weapon of the Ministry should have been pre-emption, but little use could be made of this before the fall of France, owing to the successful resistance of the Treasury and Board of Trade to merely preclusive purchasing on any considerable scale. At this stage the Board maintained that the promotion of British exports

provided the best means of countering the German economic penetration of the Balkans, and the Treasury, rightly concerned with the country's limited resources in foreign exchange, concurred readily in this view. But even such limited funds as were available were not put to the best use owing to the lack of a purchasing organization in the Balkans. This deficiency led to the setting up in April 1940 of the United Kingdom Commercial Corporation, with a grant from the Treasury, but the effects of this new policy did not begin to be felt until some months later. The funds available were still very limited.

The fourth main activity of the Ministry was the control of enemy exports. In 1939 Germany had, as compared with 1915, few foreign assets, and it was scarcely surprising that before and after the outbreak of war she was known to be pushing her exports by every possible means. Seizure of exports had, however, to be justified as a reprisal against German breaches of international law, in terms that would satisfy the Prize Court. A Reprisals Order was finally issued on 27th November 1939; its justification was the laying by the Germans of unanchored mines without adequate precautions. The neutrals, including Japan and the United States, found it necessary, nevertheless, to protest, and the Order was applied with great leniency for some months. One of the first signs of a tightening of the control was the stoppage in March 1940 of German coal exports to Italy via Rotterdam.

It will be seen from the foregoing paragraphs that economic-warfare policy before April 1940 consisted in a steady and continuous policy of persuasion applied to all neutrals adjacent to Germany, a policy whose success was, however, limited by lack of precise knowledge of German deficiencies, lack of foreign exchange in the Balkans, lack of good-will in the case of Russia, and lack of adequate coercive powers in northern Europe. An examination of the German supply position completed by the Ministry early in April 1940 suggested that Germany was finding serious difficulties in meeting demands for certain ferro-alloys, lubricating oils and greases, rubber and rubber substitutes, and textiles, and that she was using up more rapidly than they could be replaced her limited stocks of motor spirit, diesel and fuel oil, fats and animal feeding-stuffs, leather, and certain non-ferrous metals. But it was admitted that the position 'did not seem very promising for a rapid decision in favour of the Allies through economic pressure alone as at present exercised', and it was considered that the position was even less satisfactory when account was taken of the sources of supply open to Germany through routes uncontrolled by the Allies, leaks in the existing controls, and breaches of the war-trade and other agreements by neutrals. In short, the limited success of economic-warfare policy up to this date would have necessitated considerable changes in the near future even if the German victories had not altered the situation radically.

We have seen that a number of alternative or supplementary plans had been elaborated and noted before the war, and while contraband and enemy-export control, with the threat of interception and statutory listing, had been the principal weapons hitherto, there had already been discussion of new developments during the winter months of 1939-40. Early in December 1939 a committee of officials had reached agreement on plans for the development of pre-emption that led later to the setting up of the United Kingdom Commercial Corporation (the U.K.C.C.). With the occupation of Denmark and Norway the Ministry had a first experience of United States willingness to block the assets of occupied countries, a step which opened up the prospect of a really effective system of financial pressure. The general trend of these ideas was towards control of supplies at their overseas (i.e. non-European) sources, and the destruction of the enemy's financial resources in neutral countries.

Bound up with these discussions was an administrative problem of vital importance, namely that of keeping the 'action' side of the Ministry fully informed about its targets, in other words of ensuring that the Intelligence side and the action side collaborated fully in devising improved ways and means of denying supplies to the enemy. This problem was one which, in one form or another, governed the administrative history of the Ministry throughout the war, and it will be examined in its wider setting in the next chapter. Here it may be noted that in March 1940 an experiment was tried which up to the fall of France seemed to be yielding very useful results. Nine committees were set up, each dealing with an important commodity or group of commodities and including representatives of the appropriate Intelligence and action departments of the Ministry. Oil already had its own committee. The purpose in each case was to ask what was the existing and future supply position of Germany with regard to the commodity in question, how far the existing action reduced supplies, how far the German supply of the commodity was capable of being shaken by any action which the Ministry could take (short of military and air action), and what further methods, whether immediately practicable or not, could be usefully employed. Papers, brief in final form but based upon detailed study and extensive discussion, were prepared, covering the more important commodities. The committees worked hard during March 1940 and throughout April. The rapid overrunning of Norway, Denmark, Holland, and Belgium, and later of France, made much of the factual work obsolete almost as quickly as it was completed. But a great many of the new ideas that were in the air throughout the Ministry were canvassed in these commodity committees, and their preliminary ventilation formed a valuable preparation for the replanning of economic warfare which was soon to come.

This replanning first began to take shape when the Ministry was represented upon a committee of four appointed by the Chiefs of Staff on Sunday, 19th May, to draw up plans to meet 'a certain eventuality'. This was the possibility of the collapse of France, which for the purpose of these discussions was assumed to be possible by 1st June. The committee consisted of the Directors of Plans of the three Services and a member of the Economic Warfare Intelligence Department of the Ministry.

The Services in effect posed two questions to the Ministry of Economic Warfare. (1) Assuming that Italy has entered the war and that Germany is the master of the whole Continent, excluding Turkey and perhaps the Iberian Peninsula, is there any strategic advantage in continuing economic warfare, or will the German supply position be so greatly eased as to make it invulnerable to attack? (2) If economic warfare is to be continued, can supplies reaching Europe be controlled in ways that will reduce almost to vanishing point the calls made upon the Navy for patrols?

In reply to the first question, the Ministry's representative argued that although Germany would get substantial immediate relief to her economic difficulties, so that iron ore in particular would virtually disappear as an economic-warfare target, nevertheless she would be faced with great problems of administration and distribution. These would be increased by the inadequacy of her total supplies of petroleum products, of rubber, of natural fibres, and of some of the protective foods and special non-ferrous metals. Provided that she could be prevented from using the waterways round Europe, particularly those of the eastern Mediterranean, and if air attack could be planned so as to aggravate her difficulties, it should be possible to prevent her from exploiting to the full the advantages that she had gained, and after a year the depletion of stocks should begin to increase her difficulties. Much would depend upon what reached Germany from and through Russia and through the remaining adjacent neutrals, and the French overseas territories. In addition, if the occupied populations refused to collaborate, hoarding, particularly by small agricultural producers, might add to the difficulties of supplying the industrial populations within Germany proper. It was further argued that Germany would have real difficulties in distributing both foodstuffs and raw materials as between Germany proper and the occupied countries, and that failure to make a proper distribution might result in unrest that would make further demands upon German military resources, both for garrison duties and for communications in the occupied lands.

These arguments were accepted. The importance of the sea-ways, especially in the eastern Mediterranean, was stressed, and it was agreed that the maintenance of economic pressure was essential to the

general strategic plan. Communications and administration, oil, rubber, some of the non-ferrous metals and the quality foodstuffs became the principal targets.

The Navy insisted that pressure must be taken off the patrols and that normal contraband control would be impossible. The principle of increased control at the source was adopted. 'Off the seas on to the quays' became the slogan of the new policy. This later became 'from the seas to the source'. At this stage the ideas which had previously been explored amongst many members of the staff of the Ministry stood its representative in good stead. In an account of these discussions he has recalled that as he listened to the Navy stating its difficulties and as he wondered what he could say in reply, he thought of the rather crude type of 'popular' economic treatise which traditionally had accused the British of using their many and diverse economic interests throughout the world for purposes of national and imperialist aggrandizement and not for legitimate trade. Picturing the number of these interests—insurance and credit facilities, harbour and other shipping facilities, knowledge of commodity markets, and so on—he speculated upon the effect of restricting the use of all these facilities wherever they might be to those who collaborated in refusing to trade with the Axis. This body of ideas was later knocked into shape with the help of the Ministry of Shipping and emerged as the Ship Warrant Plan (see Chapter XIII). It was recognized in these early discussions that the co-operation of the United States would be necessary if this kind of policy was to be fully effective, and, in addition, the goodwill of producers in overseas neutral countries would have to be secured by a so-called 'surpluses' policy. This would entail the buying up of stocks rendered redundant by the blockade, partly to reduce the unpopularity of the controls and partly to assure occupied Europe that supplies would be available for relief when the Germans were thrown out.

With the brevity required by the circumstances of the times, these ideas were incorporated in papers submitted to and adopted by the Chiefs of Staff and approved by the War Cabinet in the last week of May and the first week of June. Meanwhile changes were taking place in the personnel of the Ministry. Mr. Hugh Dalton succeeded Mr. Cross as Minister on 15th May, and he was joined by Mr. Dingle Foot as Parliamentary Secretary. The papers referred to above were, under instructions of the Chiefs of Staff, prepared under conditions of great speed and secrecy and without adequate consultation with the Ministry being possible. In general, however, they commended themselves to the new political heads of the Ministry. Sir George Mounsey had indicated a wish to retire, and Major Desmond Morton, the head of the Intelligence Branch, left the Ministry on 17th May to join the Prime Minister's staff. Mr. Dalton took advantage of these

changes to carry out the far-reaching reorganization of the Ministry that the new circumstances required. On 1st June, Lord Drogheda and Mr. N. F. Hall were appointed joint Directors (under Sir Frederick Leith-Ross as Director-General) and were instructed to re-allocate duties throughout the Ministry so as to give effect to the new emphasis on control at the source. Their plans were worked out during the first ten days of June and took effect very soon after the French collapse.

The new arrangements, and the changed situation of the blockade as a result of Germany's occupation of so much of the western European seaboard, modified almost every aspect of the economic blockade, and clearly ushered in a new phase, which will be the subject of the second part of this volume. In subsequent chapters of Part I we shall examine the more detailed activities and negotiations conducted by the Ministry of Economic Warfare down to the fall of France.

CHAPTER II

THE MACHINERY OF THE BLOCKADE

THE administrative machinery which had been devised for preventing the importation of contraband into Germany and territories under her occupation was set in motion as soon as war was declared on 3rd September 1939; the first cases of intercepted cargoes were considered by the Contraband Committee on the following afternoon. Some weeks went by before this machinery could be said to be working normally, and by that time proposals for its extension (or mitigation) were already being considered. At the end of November 1939 the need for machinery for the control of enemy exports led to further administrative developments. There was no period during which the organization of the blockade could be said to have acquired a completely stable or final form, and it is well to remember that this was indeed an operation of warfare, in which, while the broad lines of general strategy altered infrequently, day-to-day pressure on the enemy necessitated numerous changes in tactics.

In this chapter an attempt will be made to describe the essential features of this complicated and shifting mechanism down to June 1940, and it will be convenient to start with a sketch of the general organization of the Ministry of Economic Warfare. The 'traditional' system which is described here earned its name from the fact that it followed very closely the experience of 1914-18, and it remained the basis of the Ministry's work throughout the war, although the development of more effective means for the control of supplies at their overseas sources reduced its relative importance after the fall of France.

(i)

The Ministry of Economic Warfare

The three categories of economic-warfare weapons visualized in the pre-war plans, namely, legislative, diplomatic, and military action (p. 17), determined the structure of the new Ministry. The London School of Economics was required to give up its building (though not its staff) to the new Ministry, which remained there from September 1939 to March 1940. Its move to more commodious

premises at Berkeley Square House was evidence of the growing complexity of its work, and it remained in Berkeley Square (acquiring additional accommodation in due course in the adjoining Lansdowne House) until the end of the war. At the beginning, in September 1939, there were four main departments of the Ministry—Plans, Foreign Relations, Prize, and Intelligence—under Sir Frederick Leith-Ross, Chief Economic Adviser to the Government, who became the Ministry's first Director-General. His experience of international economic problems made him specially qualified for this post. For more than twenty years he had been in the closest touch with financial and economic developments in Germany, having been British financial representative on the Reparations Commission after the First World War and having negotiated with Dr. Schacht the Payments Agreement with Germany which governed the trade between the two countries during the five years before the outbreak of war in 1939. He had, moreover, in 1936–37, undertaken a special mission to China and Japan, which had familiarized him with economic conditions in the Far East. The Secretary of the Ministry was Sir George Mounsey, of the Foreign Office. There were numerous changes in the organization and names of the various departments of the Ministry as the war went on, but throughout there were two basic divisions, one to deal with 'action' and the other with 'intelligence'; the names that finally found favour for these two divisions were the 'General Branch' and the 'Enemy Branch'.

The setting-up of a small planning department to devise general policies for the new Ministry was an interesting experiment, but it was, no doubt, foreign to the British administrative genius, and in November 1939 its head could only say, 'no one knows what the Plans Department does, but whatever it does is done with efficiency and dispatch'. It disappeared in the first major reorganization of the Ministry on 1st December 1939. Henceforth the broader changes in the general plans of the Ministry came about either as the result of proposals arising from the day-to-day experience of the action sections, or were introduced at the ministerial level to meet external criticism, changes in the general military or diplomatic situation of the war, or the new ideas of successive ministers and their advisers. The need for a systematic study of general plans was, however, always present, and there were various attempts to meet it, such as the setting-up of the nine 'commodity committees' in March-April 1940, and other *ad hoc* devices. A weekly conference of senior officials, presided over by the Minister, which met regularly from March 1942 until the end of the war, may be regarded as the final form of these experiments in general co-ordination.

The Foreign Relations Department, subdivided in December 1939 into 'Northern' [European], 'Southern' [European], and 'General

and Overseas' Departments, looked after war-trade agreements and similar negotiations, and appears to have been reasonably adequately staffed. But the Prize Department, on which fell the work of contraband control, was not; it started the war with 22 officials of the administrative, and nine of the clerical, grade, and although its numbers had been increased to 45 and 87 respectively by December 1939, it was still short-handed. These December 1939 figures included 12 officials to deal with enemy-export control. By March 1940 its numbers had risen to 65 and 181 respectively; by June 1940 they were 63 and 199. In the early months of the war considerable congestion and delay resulted from this under-staffing, and the attempts to meet it by borrowing from other sections merely created delays elsewhere, as, for instance, in the production of neutral-trade statistics. The fact is that no reliable figures of staff engaged in similar work in the Ministry of Blockade of the First World War had been available to the pre-war planners, and their under-estimate took some time to remedy. Subject to these limitations the Prize Department can be said to have found its feet very quickly. The character of its work will be examined more closely in subsequent sections of this chapter.

The Intelligence Department (which appears to have become known very soon as the 'Intelligence Division') at the beginning of the war was divided into a number of sections, of which Enemy Countries, Neutral Countries, Black List, Statistics, Liaison and Censorship, and Commodities were the most important. At the start of the war the Enemy Countries Intelligence (E.C.I.) section did not consider food questions in Germany because this matter had, up to this date, been handled by the Food (Defence Plans) Department, which developed into the Ministry of Food. Arrangements were made for its transfer, with the appropriate staff, to M.E.W., after which E.C.I. covered all German matters, taking over from N.C.I. occupied countries, such as Poland, as they came into enemy hands. Late in November 1939 the organization was simplified and divided into two sections, Blockade Intelligence and Economic Warfare Intelligence. The first dealt with material necessary for the administration of the contraband-control system, including Statistics, Statutory Listing, and Commodities. Economic Warfare Intelligence took in E.C.I., N.C.I., and Censorship. The division was intended to serve two purposes. 'Blockade Intelligence' was needed urgently for the day-to-day work of the action departments of the Ministry—particularly the Prize Department—and its organization preceded that of the 'Economic Warfare Intelligence' section. The latter had a slower growth, and its purpose was less narrowly defined. Its object was to keep under constant observation the enemy's economic potential for war with the object of assisting other branches of Intelligence in detecting in advance his possible intentions, in estimating his strength and his

weaknesses, and in selecting points vulnerable to attack by any available weapon—blockade, pre-emption, submarine, air attack, political and psychological propaganda and the like. Its existence was a proof that from the start the Ministry wished to serve something more than the blockade, and hoped to become the servant of the Services, political warfare, and other agencies of government. In this field its technique was at this period largely untried, and it had to build up a market for its products. In particular, both the War Office and Air Ministry had to be convinced that the Ministry could do for them what their own intelligence sections dealing with some specialized aspects of economic matters in enemy countries could not do. The Intelligence Department was represented by one or other of its senior officials on the J.I.C., and was increasingly consulted during the winter, although its representatives were not members of the joint planning staff.

Throughout the period from September 1939 to April 1940 there were various practical obstacles to the full development of this 'Enemy Intelligence' work. For some months the Ministry was not given official access to the German press, which was supposedly being analysed for it by the Foreign Press Service of Chatham House at Balliol College, Oxford. While this matter was being considered in the appropriate quarters, the Intelligence Department made use of German papers which a member of the staff was receiving at his own expense through a friend in Holland. The recruiting of new staff was hampered by the low salaries that were being offered, and by Treasury rules which were perhaps more rigid at this stage than they became later. The Supply Ministries and the Ministry of Information paid higher rates than the Ministry could offer for comparable work. For some time the intelligence work of the Ministry was dependent on the goodwill of individuals who were willing to accept a lowly status and low pay, or upon employers who were willing to make up differences in salaries. The Intelligence Department was also badly understaffed with typists until March 1940. Organization began to broaden out, however, in June 1940, when more Assistant Secretaries were secured. A new grade of research assistant was created in January 1940 to give specialist officers in 'Enemy Intelligence' the kind of assistance they needed. There was also the problem of training; something of a flair for detective work was needed in addition to technical knowledge or academic distinction. It was decided from the start that although the word 'economic' was used to describe the functions of the Intelligence Department, it was not desirable to use too many individuals whose specialized training lay in the field of academic economics. For much of the work a good technical training and the capacity to weigh evidence in one or other field of applied science, or experience in applied research in such fields as engineering, trans-

portation, and agriculture, was considered to be much more valuable than a formal training in economics. A small number of individuals with high academic qualifications in economics and statistics was, however, included in specialized fields such as finance and manpower.

'Blockade Intelligence' served more immediately the needs of the blockade. Drawing information from a variety of sources, it supplied information as to cargoes reaching neutral countries adjacent to Germany; it would call attention to any particular shipment that seemed abnormally high as compared with pre-war import figures; its Commodity section would advise about the nature of obscure commodities and their possible uses, their proper classification, and, when no trade statistics were available, the abnormality or otherwise in size of the consignment. Black List section, responsible for the preparation of the Statutory Lists, would call attention to any information in its possession indicating that either the consignor or consignee was attempting to trade with Germany. Here, too, there were the familiar difficulties of overworked staffs, and lack of experience. The serious congestion of work was increased by the fact that new staff had to be trained, and that a large proportion of the staff had to be employed for a time on administrative work which was later taken over by the Prize Department. As a result, the digestion in the 'Blockade Intelligence' section of the statistical material which was flowing in was continually hampered. Until this time-lag had been made up the Ministry was compelled, *faute de mieux*, to accept the accuracy of official returns by neutral governments.

There were difficulties of a similar type in the development of 'war trade reporting'. British consular officers, or specially-appointed agents in the appropriate neutral countries, were required to act as 'war trade reporting officers' and to collect information about the movements of suspected contraband, together with statistical information of exports to Germany, in order to enable the Ministry to calculate the enemy's imports of these commodities. Information was also needed as to neutral persons or firms known or believed to be trading with the enemy. This meant a heavy addition to the existing routine work of the consular service, and there were the same difficulties as at home of overworked staffs and lack of experience of the work in hand. The difficulties are well illustrated in a long report on the position in Italy in April 1940. It remarked that, although the personnel had been trebled in the chief centres, the consulates were still conspicuously overworked; there was nowhere a 'twelfth man' and hardly the semblance of a margin to allow for either rest, sickness, or intelligence work properly so-called. Milan was more favourably placed than Genoa or Trieste, because of the absence of shipping work, but, even so, Milan had as many as 500 certificates of origin (under enemy-export control) presented to it daily, involving

'enormous' executive work, quite apart from any intelligent and responsible scrutiny of the underlying operations. Imperfect communication between the consulates and the embassy was a further difficulty. The Italian censorship appeared to open everything addressed to an embassy or consulate. The King's Messenger Services were inadequate. Cyphering on an adequate scale took too much time. In Italy, as elsewhere, there was a familiar story of neutral reticence. Norway, for example, adopted legislation making it a criminal offence to report or give information concerning shipping. Four days before the outbreak of war four British naval officers were sent to Narvik, a Norwegian port whose industry was limited almost entirely to the shipping of ore transported by rail from Sweden; they had to confess, as late as March 1940, that they could still not obtain the figures of deadweight tonnage loaded at the port. 'I do not think', wrote one of the officers, 'the fact that small boys remark "Look! Four English spies" as we pass through the streets need be taken as being more than voicing the curiosity of the inhabitants at what four English naval officers can have to do, coupled, possibly, with a desire to practise the English taught to all Norwegian children in the local schools.' But the Norwegians remained uncommunicative.

The Ministry was never very large; it started with a total staff of 886 in September 1939, and the number rose slowly to 985 (December 1939), 1,259 (March 1940), 1,506 (June 1940), and then fell to 933 in August 1940. It remained just under 1,000 until the end of 1940, and then increased by small additions each month to 1,358 in October 1942; it remained around this figure until April 1944, and then dropped to 617 in May and to 353 in December. Its numbers continued to shrink until it numbered 282 in May 1945, on the eve of its disbanding. But these relatively small numbers do not give an adequate picture of the scale of its activities. Outside the offices of the Ministry itself there were the staffs of contraband-control bases, the naval patrols under Admiralty authority which enforced the blockade, the Procurator-General's Department which dealt with suspected contraband, and the staffs of embassies and consulates abroad occupied wholly or in part in activities arising out of the economic blockade. It was, indeed, one of the abiding problems of the department throughout the war that its weapons were not directly controlled, or were only partly controlled, by the Minister, and it was correct, but not altogether satisfying, to say that his field of policy was always wider than his field of action.

For when conflict arose on points of policy the executive initiative of the older departments, combined with the greater authority of their ministers, was all too likely to give them the last word, or, indeed, to prevent the last word from ever being spoken. The relations between the Ministry and the Foreign Office were particularly

important in this connection. The two departments were bound to be very closely linked; they were also bound, particularly in the early stages of the war, to differ considerably in both their objectives and their methods. The success of the blockade depended, broadly speaking, on how far the Ministry could go in imposing inconveniences on neutrals; the success of foreign policy seemed to depend very largely on how far neutral goodwill could be retained and strengthened. There can be little doubt that some of the Foreign Office officials and ex-ambassadors who joined the staff of the new Ministry felt some uneasiness at the conditions and methods of work there; others, it is fair to say, perhaps enjoyed the transition, finding themselves temperamentally disposed to a more pugnacious style than Foreign Office conditions normally made possible. On such issues as the wisdom of enforcing the blockade against the incalculable and irritable Italians there were considerable doubts even in the Ministry itself, and it was an ex-Foreign Office official of the Ministry who remarked of Mussolini in November 1939, 'when you are trying to shoot elephants, don't let your shotgun off at butterflies, because you will either scare off the elephant or frighten him into charging'. The Ministry was, in a sense, subordinated to the Foreign Office: the Foreign Secretary was a member of the War Cabinet, and spoke there for the Minister of Economic Warfare, who was not a member. Lord Halifax was inevitably a weightier political figure than Mr. R. H. Cross, who went to the Ministry from the Parliamentary Under-Secretaryship of the Board of Trade, and who incidentally was not made a Privy Councillor until the close of his term of office. Many matters which were partly, or even mainly, economic were handled by Lord Halifax with little reference to the Ministry. These included the whole Narvik iron-ore question after December 1939, and negotiations in Washington in January 1940 for the setting-up of a contraband-control base in Canada, which were commenced without the knowledge of the Ministry. On 29th January 1940, to mention another instance, Mr. Churchill gave orders that in future no American merchant ships were to be brought into the contraband-control base at Kirkwall. It can be said that for one reason or another every department that had relations with neutrals—including the Ministries of Supply and Food, and the Board of Trade—had on balance a greater interest in conciliating the neutrals than had the Ministry of Economic Warfare.¹

This does not mean that it would have been possible or desirable for the Ministry to paddle its own canoe to the detriment of other traffic; it had to avoid the obstruction of other craft with the common

¹ However, generalization is dangerous. There were supporters of 'conciliatory' as opposed to 'tough' tactics inside the Ministry. The Treasury sometimes favoured a tougher line than the Ministry (*cf.* p. 282).

goal of Allied victory. The danger—particularly in the early stages of the war—was that it would not command sufficient attention to avoid the obstruction of its own course, or that it would not receive sufficient help in its difficulties. The Ministry itself had, nevertheless, no doubt as to the necessity for collaboration with other departments, and interdepartmental committees—such as the Contraband Committee and Enemy Export Committee—played throughout the war an important part in its work. Moreover, the presence on the staff of the Ministry of officials who had been seconded from the Foreign Office and other departments made it easy to settle many differences as they arose by direct consultation.

(ii)

The Traditional System

The basic arrangements for the control of contraband were as follows:

1. Interception and detention. Vessels suspected of carrying contraband were intercepted and diverted by the Navy into contraband-control bases, where they underwent preliminary examination; fuller examination was carried out by the Customs either on board ship, or after cargo had been discharged.
2. Collection and scrutiny of information concerning the nature, ownership, and destination of the detained cargo carried out by the Intelligence and Prize Departments of the Ministry.
3. Decision by the Contraband Committee as to whether the cargo should be seized and placed in the custody of the Marshal of the appropriate Prize Court.

Goods which the British Government regarded as contraband were set out in a list which was proclaimed on the outbreak of war. This followed the example of the United States, which had issued in 1917 a general instead of a particularized list. The British list of September 1939 set forth in general terms four categories of absolute contraband, namely:

1. Arms, ammunition, explosives, chemicals.
2. Fuel; means of transportation.
3. Means of communication.
4. Coin, bullion, currency, evidences of debt.

Food, foodstuffs, and clothing were listed as conditional contraband. But a confidential supplement gave a detailed catalogue of articles under these five heads, and this catalogue was so all-embracing as to omit only a few types of goods, such as medical supplies, tobacco,

certain fancy goods, and articles intended for the use of the ship in which they were found. During the first two months of the war a number of the less important goods were not treated as contraband, but, as from 1st November 1939, the full list was applied.

After the outbreak of war all shipping carrying goods to neutral countries adjacent to Germany was invited to call voluntarily at an Allied contraband-control base for examination. Ships which showed an intention to avoid doing so were liable to be brought in compulsorily by naval patrols. During the first three weeks of September 1939 attention was, however, concentrated on ships known to be carrying contraband, and only those carrying goods openly consigned to Germany were sent in to the contraband-control bases. There were two obvious reasons for this restraint: it was considered desirable not to ruffle the feeling of neutrals by introducing the system too abruptly, and the cruisers and destroyers which had at first to undertake the patrol duties were often required for other purposes. Before the end of September patrol duties were being undertaken by auxiliary craft, and this made possible the rapid tightening-up of the control. Ultimately, all ships bound for adjacent-neutral countries were sent in unless they had a naval clearance.

The right to bring neutral vessels to convenient harbours for either visit or search had been recognized by the London Prize Court in the *Zamora* case in 1916 and was now considered by the Government of the United Kingdom to be fully recognized in international law, although with the proviso that it must not be unreasonably or unnecessarily extensive. Accordingly bases were set up at prearranged ports immediately on the outbreak of war. In the British Isles they were selected to control the two main streams of traffic to the Continent.

1. The northern route round the British Isles to Scandinavia and the Baltic was covered by the base at Kirkwall and by the Northern Patrol. Originally a cruiser patrol between Scotland and Iceland, it was gradually brought up to strength by the arrival of armed merchant cruisers and armed trawlers, and was extended to the Denmark Straits between Iceland and Greenland. The effectiveness of this patrol was influenced by the season and the weather. In the depth of winter there are only a few hours of daylight, and, when the weather was unfit for boarding, the patrol had to bring a ship to the armed trawler, which escorted it to Kirkwall.
2. The route through the English Channel to Holland and Belgium was covered by the base at Ramsgate, with a supplementary base at Weymouth, where ships could call voluntarily to avoid the delays resulting from congestion in the Downs. Any ship passing Weymouth was, at the beginning of the war, inter-

cepted by destroyer patrols off Dover and sent into the Downs for examination. Later, the laying of the Dover barrage forced shipping to proceed through the Downs, or the Dunkirk channel. No shipping was compelled to go into Weymouth by patrols in the western approaches.

When control of enemy exports was introduced at the end of November 1939, it was decided to open new bases in order to meet the heavy increase of work that was anticipated. In Scotland, after the relative disadvantages of Cromarty Firth and Stornoway had been examined, a base was established at Invergordon; in the Channel one was established at Falmouth to relieve Ramsgate and Weymouth. The Admiralty wished to continue to reserve Falmouth and Weymouth for use as voluntary ports of call in order to avoid having to divert warships from other purposes to the job of escorting neutral ships into them. At the beginning of January 1940, arrangements were made for wide circulation among neutral shipping communities of the warning that the entry of foreign vessels from the westward into the Downs might without warning be limited to those which had their cargoes fully covered by navicerts or had already obtained clearance. All neutral ships were therefore 'requested in their own interests' to call at Falmouth or Weymouth. This threat that neutral vessels might be compelled to return to the two west Channel ports for clearance was not, however, enforced, and the staff of the contraband-control bases at the two ports continued to complain of lack of work. By March 1940 it was becoming clear that neutrals had an 'overwhelming objection' to using these ports as long as they had the 'stigma' of being voluntary bases. Before the end of 1939 various neutral shipping companies had endeavoured to secure permission to call at the Downs instead of Weymouth on the grounds that the former was safer in bad weather. This view the Admiralty would not accept, and it even argued, in March 1940, that the agitation was a ramp on the part of neutral insurance companies, spurred on, if not actually instigated, by enemy propaganda as a means of taking British warships away from their proper job of hunting submarines.

Diversion of shipping for Scandinavian and Baltic ports to Kirkwall also caused complaints; here the objection was in part the length of deviation from the normal route which was sometimes necessary, but mainly the danger of attack by German submarines and aircraft owing to the proximity of the base to Scapa Flow. The problem was complicated by the fact that the United States Government had included this area in the 'combat zone' which American ships were forbidden to enter, and it was feared that if any American shipping came to harm after being compelled to visit the base the effect on the Allied cause in the United States might be extremely serious. Dis-

cussions were accordingly started in January 1940 with the United States and Canadian Governments as to the possibility of opening a contraband base in Canada, but, although these appeared to be making progress, no final decision had been reached by the spring, when the German invasion of Norway and Denmark put the whole subject on a new footing. These conversations with Washington will be discussed in more detail below (see p. 358). Here it may be convenient to note that at the end of January 1940 United States vessels were, as a temporary measure and without any alternative arrangements being made for the verification of cargoes or inspection of mails, exempted from calling at Kirkwall. This concession naturally made it more difficult to resist the demands of other shipowners (particularly Scandinavian) that their vessels should be exempted from calling at Kirkwall, or to secure from them, in return for exemption, satisfactory alternative arrangements. A further and very considerable obstacle to agreement was the action of the United States postal authorities in threatening to exercise their power to withhold clearance from any vessel refusing to carry United States mails, which made Scandinavian vessels correspondingly anxious to secure the same privilege as the Scantic Line of being allowed to carry mails without inspection.

As the Ministry hoped in time to have this privilege withdrawn altogether, it refused to extend it to the non-American lines. In particular voyages, however, the Contraband Committee permitted ships of these lines to omit the call at Kirkwall. In mid-February a number of tankers from Curaçao were, for example, allowed to proceed to Scandinavian ports without calling at a contraband-control base on condition (*a*) that they carried no passengers or mails; (*b*) that British consular officers were present at the loading and discharge of cargo in order to ensure its correspondence with the manifest; and (*c*) that no cargo was picked up en route. Finally, just before the German invasion of Scandinavia, an agreement was reached with the Swedish shipowners whereby their vessels would be allowed as a rule to omit calling at Kirkwall, on condition (*a*) that the arrival at Swedish ports of all vessels over 1,000 tons would be reported to the Ministry; and (*b*) that cargoes would be inspected on unloading at Swedish ports by nominees of the British Government.

Vessels sailing to and from the Mediterranean were also in certain cases allowed to omit the call at a base in the British Isles, and in the Mediterranean itself diversion was a serious problem. Here it was necessary to cover three main streams of traffic.

1. Traffic eastbound into the Mediterranean through the Straits of Gibraltar was covered by a contraband-control base at Gibraltar. Patrols consisting at first of destroyers and later of armed yachts intercepted shipping in the Straits.

2. Traffic westbound into the Mediterranean through the Suez Canal was covered by a base at Port Said, but no contraband could be seized, or other compulsion used, owing to the international character of the Suez Canal Zone, as established under the Canal Convention. Ships refusing examination at Port Said were accordingly stopped by the patrol outside the three-mile limit and sent under armed guard to Haifa, where a contraband-control base was set up at the outbreak of war.
3. Traffic into the Mediterranean through the Dardanelles could be intercepted by patrols in the Aegean and off the Dardanelles, but as the Allies possessed no contraband-control base in the Aegean, ships had at first to be sent, in spite of the long diversion involved, to Haifa. After September 1939 Malta began to be used as an alternative control base.

Vessels proceeding from the Mediterranean to Scandinavian ports were normally controlled for contraband at Gibraltar, and after the beginning of 1940 were given a 'missing Kirkwall' clearance (i.e. authorizing them to omit the call at a British base) on condition that the master or owners undertook not to call at any Iberian port. Most of the difficulties in the way of setting up complete contraband control in the Mediterranean were due, directly and indirectly, to Italy. In the first weeks it was not known whether she would come into the war, and accordingly only intermittent patrols could be maintained in the Aegean. By the end of September it appeared probable that she would remain neutral for the time being, and a regular patrol by cruisers and destroyers was established off the Dardanelles and in other parts of the Aegean. The armed boarding steamers which had operated off Port Said in the first weeks of the war were also sent to the Aegean, and the work of patrol outside Port Said was carried on by mine-sweeping sloops. Furthermore, occasional patrols were carried out after September in the Straits of Otranto and off Cape Matapan. The base at Malta was in full operation by the beginning of November, and served the double purpose of saving ships intercepted in the Aegean the long diversion to Haifa, and of offering an alternative to Haifa to ships diverted from Port Said. On 15th December a further base was established, at the request of the Italians, at Aden. Here a preliminary examination of the papers of ships proceeding to the Mediterranean could be made, and the ship could then be released after giving an undertaking to call at Haifa or Malta. By this means Italians could avoid the call at Haifa, which they very much disliked.

Arrangements were also made to simplify the procedure in the case of Italian ships entering the Mediterranean through the Straits of Gibraltar. In the early stages of the war it frequently happened that vessels proceeding eastward through Gibraltar to Spanish ports, and

thence to Italy or beyond, had to submit first to examination at Gibraltar and then to diversion by the French patrols to Marseilles or Oran, where they were subjected to another examination. This irritating practice was modified before the end of 1939. Ships which had no call to make at Spanish Mediterranean ports continued to be dealt with at Gibraltar, but those which intended to put into Spanish ports before proceeding to Italian or East Mediterranean 'adjacent-neutral' ports were exempted from control at Gibraltar on condition that the master or the owners undertook to call, after leaving Spain, at Marseilles or Oran. The establishment of a French liaison officer at Gibraltar at the beginning of 1940 helped to avoid the alternative dangers of double detention and of evasion of control. A special concession was, however, sometimes made in the case of Italian ships calling at Spanish Mediterranean ports. On the strength of an undertaking not to load either cargo, passengers, or mails at these ports, they were examined for contraband at Gibraltar and given clearances through to their Italian destinations and thus escaped diversion to a French port. This arrangement was obviously an unsatisfactory one, and was limited to Italian vessels.

Somewhat similar problems arose in the eastern Mediterranean. Ships often had to be diverted far out of their routes to Haifa or Malta. Moreover, a vessel bound to Italy from Egypt or the Black Sea might call at a number of ports in Asia Minor, the Greek mainland, or the Greek islands, and in theory a fresh diversion to Haifa would be necessary after each visit to port. A partial solution of these difficulties was found in due course when certain shipping companies were granted immunity from diversion in return for guarantees given to the Ministry in formal agreements (see p. 104). The problems of delay and other inconveniences in the north-eastern Mediterranean routes were, however, never really solved before Italy's entry into the war. A further complication came with the introduction of control of enemy exports in November 1939, as shipowners had now to secure certificates proving the non-enemy origin of goods. One grievance was that the diversion of ships to Malta seriously wasted the time of passengers, and in December the Admiralty decided that a tender should, when possible, be made available at Piræus to meet detained passenger ships just outside the three-mile limit, and land passengers. Considerable confusion arose towards the end of the winter over the declarations of ultimate destination which consignees in adjacent-neutral countries were frequently required to attest before a British consul in order to secure the release of detained goods (see pp. 81-2). In a number of cases consignors appear to have arranged for the consignees in the country of destination to send them declarations of ultimate destination, and the British consuls at Smyrna, Istanbul, and Constanza had passed these declarations on to masters of ships

without making it clear to them that they did not exempt the goods from contraband control. As a result the neutral shipper who was diverted to Malta was annoyed to find that he had gained no apparent advantage by securing the declaration, and naturally asked why the consuls had issued them if they did not guarantee an uninterrupted passage through the controls. The confusion probably arose from the fact that, where special arrangements had been made with shipping companies, the declarations did exempt from control, and had to be carried by the masters of the ships.

It will be seen from this account that there was close collaboration with the French blockade authorities in the conduct of contraband control. French patrols were, in fact, responsible for the western Mediterranean and for shipping from ports on the east coast of Spain. Bases were established for this purpose at Marseilles and Oran. Shipping from East African and occasionally from South American ports was sometimes brought in for control at Dakar or Casablanca. In the English Channel, French bases were established at Le Havre and Dunkirk, which corresponded to the British bases at Weymouth and Ramsgate.

The next stage after a neutral ship had come into a contraband-control base was to examine its papers and cargo, and to supply the Ministry with information on which to reach a decision as to whether the cargo, and, if necessary, the ship itself should be seized. The delays and inconvenience to which this procedure inevitably gave rise were a matter of constant complaint from neutrals, and had much to do with the decision of neutral governments and shippers to adopt the various alternative arrangements which the British Government favoured.

It is clear, however, from an examination of the details of the procedure at the bases, that the routine could not be speeded up beyond a certain point. Normally when a ship anchored at a base in the United Kingdom a boarding officer, accompanied by a witnessing officer and a signalman, went on board; his first act was to signal to the base the name of the ship, its nationality, ports of origin and destination, so that this information could be sent at once by teleprinter to the Ministry in London. He then inspected the ship's papers in the presence of the master and brought them ashore; the manifest was summarized and the summary at once teleprinted to the Ministry, after which the manifest itself was copied, and posted to the Ministry by express post. A naval search party then carried out a thorough search of the ship, and examined the passengers and crew. The authority of the Ministry had to be obtained for unloading in cases where unloading was necessary in order to verify the presence of suspected contraband. If the vessel could not be unloaded at the base the Ministry had to arrange with the Ministry of Shipping to send

it to a suitable port, and had to inform the Board of Customs and Excise of the precise reasons for which it was being sent to the port in question. On its arrival the Customs took charge, carried out the discharge and examination of cargo, and informed the Ministry.

As time went on the personnel at the bases became increasingly proficient in their work, but this was to some extent counter-balanced by the fact that the more experienced were liable to be drafted from time to time to new bases. Throughout, the expert knowledge of the Customs officers was of the utmost value; the very fact that there were these officers in the parties making test searches at the bases impressed ship masters to a marked degree, and they were particularly useful in looking for concealed contraband and in searching small spaces where despatches, documents, and so on could be concealed. Great efforts were therefore made by the Ministry to retain their services, in spite of the heavy demands made on them for other war duties.

The evidence thus collected at the contraband-control bases was sent to the Ministry, where it was collated with all other available information. The results were submitted in a summarized form to the Contraband Committee, which alone could decide whether instructions should be given for the cargo to be seized, released, or retained for further inquiry. The preparation of the case for the committee was, until December 1939, the work of a section of the Intelligence Department known as 'Ships' Cargo Intelligence', which circulated forms setting out the available information; these were considered, and where possible added to, by other sections, such as Statistics, Black List, and Neutral Countries Intelligence. 'Statistics' might draw attention to any particular shipment which seemed abnormally high in the light of corresponding pre-war figures; 'Commodities' could advise about the nature of obscure commodities and their possible uses; 'Neutral Countries Intelligence' could draw attention to any economic changes in the country of destination which might justify a departure from pre-war consumption figures. In the first weeks of the war, cargoes were in many cases openly manifested as destined for a German or Polish port, or consigned to a German firm, but, after this, evidence as to the intentions of consignor and consignee came principally from the Black List Intelligence section. On 1st December 1939, the Ships' Cargo Intelligence section was amalgamated with the Prize Department, which was henceforth responsible for pre-committee as well as post-committee work.

With such evidence before it, the Contraband Committee would then make its decision. Any goods clearly destined for the enemy or suspected on adequate grounds of such a destination could be ordered to be seized. The fate of the goods was not, however, finally sealed by their simple seizure, and action had to be taken with an eye to the

probable decision of the Prize Court. This constant consideration of contraband problems necessarily led the committee to elaborate and clarify the rules concerning seizures which it had inherited from the last war. At the beginning of the war it was composed of representatives of the relevant departments, namely the Admiralty, Board of Trade, Ministry of Shipping, the Procurator-General's Department, the *Ministère du Blocus*, and the Prize, Legal, and Foreign Relations Departments of the Ministry of Economic Warfare. The Board of Trade ceased to be represented on the Committee after October; a representative of the Foreign Office was added, and shortly afterwards a representative of the Colonial Office. The chairman was Lord Justice Finlay, who had occupied the same position in the later period of the last war. The committee usually sat twice a day at this period of the war.

As it was often impossible to make a decision without further inquiry, the committee frequently ordered that a ship should continue to be detained until more precise assurances as to the non-enemy destination of the cargo had been secured. The main occasions were, (1) where goods were consigned 'to order' or to a dealer or forwarding agent and where the ultimate buyer was unknown; (2) where the consignor or other parties were known, but were suspected of enemy connections; (3) where the commodity in question was likely to be of particular value to the enemy, or was being introduced into the country of destination in abnormally large quantities.

It had been realized before the war that, so far as detention and seizure were concerned, the distinction between absolute and conditional contraband would tend to disappear in the blockading of a totalitarian power; it was also rightly assumed that there would be little difficulty in securing condemnation in the Prize Court if enemy destination could be established. Conditional contraband was by definition liable to condemnation if it were intended for use by the enemy for purposes of war, and in a totalitarian state practically all goods could be so used. It was, however, necessary to find evidence of ultimate enemy destination.

A much more difficult problem was to decide whether to seize goods which were apparently reaching a neutral in quantities greater than that country's reasonable requirements. Precedents from the war of 1914-18 suggested that the Prize Court would not condemn on such 'statistical' evidence alone, although if the evidence were convincing it was unlikely to award damages against the Crown for wrongful detention. It was certainly unwise to assume that excessive imports were necessarily intended for supply to the enemy, for the neutral might very well wish to build up stocks as a precaution against later war-time shortages. In any case the essential first step was to arrive at a sufficiently full and accurate body of statistics, and

it was not until the end of the first winter of the war that it became possible to do this. In the absence of a satisfactory statistical basis, or of an agreement with the neutral that his imports should be rationed, the committee did not feel able to act on statistical evidence alone, although the Statistical Intelligence section of the Ministry was able from time to time to show that particular consignments were abnormal. Accordingly no seizure on purely statistical grounds was ordered by the committee during the period under consideration, although such evidence might prove decisive in deciding for or against seizure in cases in which other evidence of enemy destination could be produced.

It was, therefore, necessary to rely in the main at this period on evidence as to the neutral consignee's business relations with the enemy; if this could be established as a general proposition it could be presumed that specific cargoes of contraband goods might have an enemy destination. The Black List Intelligence section, which was responsible for the revision and extension of the lists of firms in neutral countries of known or suspected German ownership, was, therefore, of great importance in the work of contraband control at this period. The evidence against the consignee might take various forms. (1) He might be a firm with a majority of German directors, or might be closely associated with enemy agents or the enemy government itself; he might also be actively engaged in business with enemy territory through neutral or even German firms. (2) His identity might be so ambiguous or ill-defined as to leave open the possibility that the goods would ultimately reach the enemy. This situation might arise where the consignee was a mere forwarding agent; if some, though not necessarily all, of his business relations were with Germany, it was held that there were reasonable grounds for suspicion that a particular consignment to him might have an enemy destination. In the case of goods consigned 'to order', where the consignee was unnamed, it was comparatively easy for the destination of the cargo to be changed by the consignor. From the beginning of the war it was made clear that the committee was not prepared to acquiesce in this procedure, and an advertisement in the press announced that as from 19th December 1939 goods consigned to order would normally be seized. (3) He might come under suspicion owing to the fact that the consignor had, or was suspected to have, enemy connections. This raised the question as to whether cargoes consigned by consignors on the Statutory List should be seized when the consignee was not under suspicion, or even when he had given a guarantee that the goods in question would not be supplied to the enemy. In the war of 1914-18, and between September and December 1939, the Contraband Committee frequently ordered the seizure of cargoes in such cases, and this practice had the advantage of embarrassing, and possibly of putting out of business, overseas exporters with enemy connections. The

French delegate strongly supported the practice. There were, however, difficulties of both a practical and a legal nature. The fact that the consignor was on the war-trade lists raised a presumption of enemy destination, but a satisfactory guarantee from the consignee could only mean that the charge had been rebutted; it could also be regarded as having been rebutted when the country to which the goods were consigned had concluded a war-trade agreement covering such goods. In the middle of December 1939 it was accordingly decided that goods from such a consignor should not be seized if they went to a country which had signed a war-trade agreement, or if the consignee were a trustworthy firm which had given a guarantee; they would be detained pending inquiries if the consignee were a doubtful firm which had not furnished a guarantee; and they would be seized if they were consigned to order to a forwarding agent (with the ultimate consignee unknown), or to a suspect consignee.

In addition to the right to seize contraband a belligerent could, in certain circumstances, seize non-contraband goods on a neutral ship, and even the ship itself. This was possible in the first case owing to the so-called 'doctrine of infection', which by British practice permits the seizure of non-contraband goods which are carried in the same ship as contraband goods belonging to the same owner. The doctrine has never been well received by Continental jurists, and as the goods were by definition non-contraband, seizure could be defended only as a retaliatory measure, and a deterrent. The latter would be hard to justify in cases in which the owner was genuinely ignorant of the fact that the seized goods had an enemy destination. The point is hardly, however, of practical importance; very few articles were not covered by the contraband lists, and in any case the committee does not appear to have made use of the doctrine.

A neutral ship could be seized if contraband goods were carried in it with the knowledge of the shipowner, and if they formed a substantial part—more than half—of the cargo. Knowledge on the part of the master was considered to bind the owner, as the master was his agent, but knowledge on the part of the charterer could not do so. Where direct proof of the shipowner's knowledge could not be secured, it was possible to infer knowledge where the amount of contraband was substantial, and where it was owned, wholly or in part, by the owner of the ship. If the ship's papers were false, missing, or mutilated, knowledge could also be inferred.

From the preceding paragraphs it will be seen that there were several well-defined grounds on which shipowners might secure the release of detained cargo or ships. Goods of an unimportant character were frequently released without question when the consignee was considered reliable, and in some cases owners received permission to unload detained cargo so that their ships might proceed on their

voyages. There were, however, two grounds for release which were of particular importance.

The first was the production of a satisfactory guarantee as to the non-enemy destination of detained goods. This was responsible for the release of the great majority of goods detained for further inquiries. The usual procedure in the first weeks of the war was to obtain, through a British consul in the country of destination, a written assurance from the consignee or subsequent purchasers of detained cargo that neither the goods nor their products would be re-exported to Germany. The guarantee at this stage followed the form of words used by the Board of Trade in granting export licences, and this only required that the goods in question should be duly delivered at the destination mentioned in the licence. Before the end of September 1939, however, the Ministry adopted a form of its own which required an explicit statement that no part or product of the goods should be exported to Germany, and a more elaborate form of this guarantee was circulated in mid-October. The provisions were as follows:

1. No part or product of the said goods shall be exported directly or indirectly in any form to Germany.
2. In the event of the said goods being (a) sold again in this country other than to retail traders in the normal course of internal consumption, or (b) exported to a neutral country, a like undertaking shall be exacted from the purchasers.
3. Not earlier than three months or later than five months after the date thereof full information shall be furnished to H.B.M. Consular Officer at _____ concerning the steps which have been taken in regard to the said goods, their whereabouts and the use to which they have been put.
4. (Where appropriate). The import of the goods set out in the schedule shall not release an equivalent or less quantity of goods for export directly or indirectly in any form to Germany.

A month later, on 15th November, further modifications were circulated. The guarantee was made to apply not only to Germany, but to any territory under German occupation and control. In article 3, instead of demanding full information about the fate of the goods within five months, the Ministry contented itself with requiring that the consuls should be furnished 'with all such explanations and documentary evidence regarding matters arising out of this declaration as they may require'. The following new wording was substituted for article 4:

I/We also declare that I/we will not by reason of the delivery to me/us of the said goods, sell or deliver to Germany (or to any territory under German occupation or control) either directly or indirectly, any quantity of these commodities or their products out of existing stocks.

The watering down of article 3 was inevitable in view of the practical difficulties involved in the original wording. In October, for example, the representatives of the Pirelli group in Italy said that instructions had been given that deliveries of tyres to Germany were to be suspended completely, and that deliveries of tyres to neutral countries would be limited to normal quantities, but that the invoicing of goods from the Pirelli companies ran into several thousand items a month, and if the British consul-general were to be given this information, he would require an accountant to examine the firm's books and put the information into summary form. Similar criticisms came from British representatives in Belgium. The new wording put the responsibility of detecting evasion on the British consuls, but it gave them authority to investigate doubtful cases. The main purpose of the fourth article was obvious enough: without it a neutral importer might, while observing the letter of his undertaking not to re-export specific goods, evade it in practice by exporting to Germany similar goods from stock. The revised wording of the fourth article was designed to meet the ingenious argument that the words 'equivalent or less' did not prevent the export of a 'greater' quantity; it produced, in turn, the complaint that a neutral importer who signed the guarantee would be debarred from carrying on any part of his normal trade. This objection had, however, been anticipated by the insertion of the words 'by reason of the delivery to me/us of the said goods', which was interpreted by the Ministry to mean that if the importer could show that he would have made the export from stock, irrespective of the consignment concerning which a guarantee had been given, he was free to do so.

After the introduction of the modified form of article 3 neutral importers showed themselves in general to be much more willing than their governments to sign destination undertakings. From the start the committee had to rely more on the previous knowledge and detective instincts of the consuls than on the production of tangible evidence, and in this connection the provision in article 3, with its threat of subsequent investigation, was the only effective safeguard against wholesale evasion of the guarantee. Provision had, indeed, been made in October 1939 whereby the Contraband Committee could require an importer of doubtful reliability to give a monetary guarantee in return for the release of detained goods. This took the form of a bond which had to be executed in Great Britain by a regularly-appointed agent of the foreign importer. Little use was made of this device, however, whereas the French required consignees in certain cases to give a bank guarantee for five times the value of the consignment. Most of the neutral governments concerned attempted to put obstacles in the way of the execution of article 3. Thus, a Swiss Government order on 2nd November pro-

hibited the giving of undertakings by Swiss firms to submit to investigation by a foreign authority; a Belgian decree on 30th November was in similar terms. There were objections also by the Governments of Norway and Sweden, although this did not result in legislation against the giving of individual guarantees. The solution which generally suggested itself was for the neutral government concerned to give, in some form or other, the necessary guarantee against re-export. The Swiss Government agreed on 12th December to undertake investigations required under article 3, and to show the documentary results to the British legation. At the end of January 1940 the Belgian Government agreed to adopt the same course, although by this stage the signature of the Anglo-Belgian war-trade agreement had largely removed the necessity for the arrangement. In other countries the signature of war-trade agreements reduced, or removed altogether, the necessity for guarantees of ultimate destination.

This, then, was the machinery whereby owners of detained goods could secure release by furnishing satisfactory evidence of destination. The second important ground for release which we should note was the agreement of the owner of the goods to dispose of them in the United Kingdom or France. The inconveniences of detention undoubtedly influenced many shippers in deciding to sell goods in this country or France instead of the one for which they were originally destined, and owners could usually secure release on these terms. In many cases these releases were granted by the Prize Department without the matter coming before the committee. In addition, goods were frequently released for the United Kingdom when they came in a ship which was not proceeding to the country to which the cargo was destined. Such release enabled the goods to be claimed by an English purchaser, or enabled the consignee in a neutral country to come forward with a transshipment application. Releases might also be granted on condition that the goods went to their destination by a prescribed route.

But after the goods had been seized they were 'placed in Prize'. International law does not allow a belligerent simply to impound goods which he regards as suspicious; he must, if he wishes to take action, seize and place them in the custody of a competent Court of Prize, there to be dealt with according to the direction of the Court. Seizure is, therefore, a temporary or intermediate process (although its duration may be protracted, possibly for the whole period of the war); ultimately the goods are either condemned as good and lawful prize, or otherwise dealt with in accordance with the directions of the Prize Court concerned.

This would not be the place to discuss the involved and highly technical problems of prize procedure and the Prize Court, even were

the present writer legally qualified to do so. It must suffice to note here the general bearing of a seizure in prize on the ends of economic warfare. We have seen that in the vast majority of cases a contraband seizure is founded not on an absolute certainty as to the enemy destination of the goods, but on a greater or lesser degree of suspicion (backed up, of course, by data as to the nature of the goods, character of the consignee, and general circumstances) sufficient in law to cast upon the party interested in the goods the onus of establishing their innocence. If he does so, it will be released to him out of prize.¹ But such a release by no means implies that the goods will be enabled to resume their original journey. Decisions of the Prize Court have established that goods seized (as opposed to goods merely detained for examination) are deemed to have entered the country or colony where seizure takes place, and any subsequent release merely operates to place the owner or his agent in possession of his goods in that country or colony. The question of their removal or export thence becomes one of local municipal law and is governed by the local export and transshipment licensing regulations, and the allocation of shipping space. Furthermore, it frequently happens that, in the course of the proceedings in prize, goods as to which no final decision has been taken are ordered by the Court to be sold (e.g. if perishable, or if, through lack of storage space or risk of damage from air attack or other cause, they cannot conveniently be retained in the custody of the Court), or to be requisitioned for the use of a department of the Crown where the appropriate affidavits are sworn to the effect that the goods are urgently wanted in the national interest and that the case against them raises a real issue to be tried. In all these cases the proceeds of the sale or the appraised value of the goods stand in the Prize Court in lieu of the goods themselves, and if a release is subsequently ordered, it is on these proceeds that it will operate, and what the owner will receive is not the goods but their value in money.

The practical effect of seizure in perhaps the majority of cases was, therefore, that, whether condemned or released, they would never reach the country to which they were originally consigned. It is impossible, with the statistics at present available, to say how much of the cargoes seized at this period of the war subsequently left the United Kingdom, and it would certainly be a mistake to assume that all seized goods failed ultimately, in some way or other, to reach the enemy. But the proportion that succeeded in doing so, when all circumstances are taken into account, must have been extremely small. The total tonnage of cargoes seized during the first four weeks of September 1939 was 76,563, 109,747, 70,448, and 32,706 respec-

¹ A rough estimate at the end of 1939 showed that the Procurator-General was releasing, at any rate in the case of pre-war shipments, eighty-five per cent. of the consignments ordered to be seized by the Contraband Committee.

tively. The falling-off after the first three weeks was, of course, due to the fact that goods shipped after the outbreak of war were no longer openly manifested to Germany. Seizures for the remainder of the year averaged 20,000 tons a week. The more important items were as follows:

Approximate Tonnage of Commodities Seized

9th September 1939–30th March 1940

	<i>Confirmed seizures Sept.–Dec. 1939</i>	<i>Confirmed seizures Jan.–March 1940</i>
Base metals and manufactures .	190,845	5,273
Non-metallic minerals and manu- factures	36,701	1,646
Petroleum and allied products .	131,985	3,068
Chemical and allied products .	4,095	1,064
Animal and vegetable oils, fats and waxes	13,728	2,337
Oilseeds	48,157	362
Foodstuffs and beverages .	22,640	11,039
Cereals	18,793	—
Feeding-stuffs	11,178	—
Textiles	25,653	1,519
Rubber	6,660	911
Gums and resins	2,426	566
Paper-making material	10,080	—
Hides and skins	3,426	—
Wood and cork	2,239	1,522
Miscellaneous	865	79
	<hr/> 529,471	<hr/> 29,386

But since figures relating to the movements of goods subsequently released are difficult to compile, it would be a mistake to regard the tonnage of seizures as an exact measure of the deadliness of the control.

(iii)

The Traditional System:
Defects and Improvements

The diversion of neutral shipping and the ensuing delays placed a heavy strain on the organization of the new Ministry and the tempers of neutral shippers. In September 1939 the average period of detention of a ship at Ramsgate was 11.9 days, at Weymouth 11 days. Although such delays were rightly regarded by the Ministry as a necessary and legitimate consequence of the exercise of Britain's belligerent rights (particularly in the opening weeks of war), there was every advantage in reducing them. Apart from the political issues involved, there was the consideration that delays to neutral

cargo normally meant delays to neutral shipping, and that claims for damages were more likely in the latter case than in the former. It was also necessary to avoid, as far as possible, the congestion of ports and anchorages, and the aggravation of the existing shipping shortage. The Ministry set out certain means whereby delays could be mitigated in a memorandum of 14th October 1939, which was widely circulated to British embassies, legations, and consulates in neutral countries. It said that: (1) shipments 'to order' should be used as little as possible; (2) shipments to a bank, where the bank was not the real consignee, should bear the name of the real consignee; (3) advance cargo information (copies of ships' manifests sent by air mail or otherwise), and advance destination guarantees (furnished by the consignee or his government) were particularly useful; (4) hold-back guarantees (see below) could be used in suitable cases. The Ministry during the next three months made good progress with these and other arrangements. They were of two main types, i.e. those with importing, and those with exporting, countries and traders. In the first group were the war-trade agreements, the hold-back system, advance destination guarantees, and agreements with individual neutral companies. In the second group were the navicert system, the 'mewcert' system, imperial export licensing, and the bulk of the agreements with private firms. These devices, in spite of their diversity, had one feature in common: they all reduced the need for interception, diversion, detention, and investigation in contraband-control bases.

The War Cabinet itself on 20th October 1939 discussed the increasing seriousness of the shipping shortage, and invited the Ministers of Shipping and Economic Warfare to confer as to the measures that could be taken to expedite the examination of vessels at contraband bases. A memorandum dated 1st November, embodying Mr. Cross's conclusions, went fully into the problems and difficulties of the Ministry, but while admitting that delays to shipping had undoubtedly occurred, claimed that on the whole they were a good deal less 'than might be supposed from the impression given by interested parties'. There was sometimes considerable delay 'before the information received in the Ministry of Economic Warfare has been laid before the Contraband Committee. It is not an unusual occurrence for the details regarding a large mixed cargo only to reach the Contraband Committee some ten, twelve, or even fourteen days after the arrival of the ship. These delays are clearly excessive.' The main difficulty, however, was one of staff, in numbers and qualifications. As a temporary measure it had been arranged that the Prize Department should forgo the comments of certain sections of the Intelligence Department. The memorandum also pointed out that the most prolonged delays had occurred in the case of certain large mixed

cargoes of consignments of the greatest importance to Germany, which did not bear any indication of their ultimate destination; the committee had been right not to allow these large cargoes to proceed without the necessary enquiries. The War Cabinet again examined the matter from the point of view of the shipping shortage on 22nd December, and Sir Samuel Hoare, Lord Privy Seal, was invited to prepare, in consultation with the Ministers concerned, a report describing the measures actually in operation for making the best use of the available shipping resources and imported supplies. The report, which was dated 25th January, also laid great emphasis on the Ministry's problems of staffing and accommodation. The Contraband Committee, as the B.B.C. foreign broadcasts announced to the world, sat on Christmas Day and Boxing Day 1939 to avoid arrears of work.

The practice of supplying in advance copies of manifests, either by air mail, faster ships, or telegraph, was well established by the end of October 1939. The Swedish shipowners made a special arrangement with the Ministry early in the month whereby they appointed a shipping representative to provide early information about cargoes carried in Swedish ships and to deal with appropriate enquiries. The practice of sending guarantees of ultimate destination in advance also grew rapidly; thus guarantees were furnished for all oil destined for Italy (other than oil in transit) by the importing company and by the Italian Ministry of Corporations. In most cases release was granted (subject to verification of cargo) in time to prevent detention at bases.

The various other alternatives to the 'traditional' system will be examined in more detail below. As time went on the routine for the scrutiny of manifests inside the Ministry was improved; administrative bottlenecks, which easily occurred when cases had to be examined by several sections of an overworked and under-trained staff, were reduced, and after the beginning of 1940 the influence of all these efforts began to show itself in the steady reduction of the average period of detention of individual ships.

HOLD-BACK GUARANTEES

The essential feature of the 'hold-back' system was that in certain circumstances a ship might be allowed to proceed to a neutral destination after giving a guarantee not to deliver to the consignees any cargo which was still under consideration by the Contraband Committee, and to return to an Allied port any items of cargo which the committee had decided should be seized. During the first eight months of the war the system was used far more extensively than the pre-war plans had contemplated, and with some corresponding disadvantages which these plans do not seem to have anticipated.

The first case in which a guarantee was offered and accepted was that of the United States ship *Black Eagle*, owned by the Black

Diamond Steamship Corporation of New York. This ship sailed from New York with a general cargo for Antwerp and Rotterdam on 2nd September; it was boarded in the Downs on 13th September, and the case came before the Contraband Committee on 17th September. The committee decided to allow the cargo to continue its journey providing that a satisfactory undertaking were received from the owners that certain items should be 'kept in bond at Antwerp or Rotterdam and returned to this country if it were decided that they should be seized as a result of inquiries'. The company on the 19th gave the necessary undertaking in writing; on 3rd October it was informed that 184 drums of molybdenum concentrates should be reshipped to the United Kingdom for seizure, and it acted at once on these instructions. The molybdenum concentrates were brought back to London in a ship sailing apparently on the 5th. The company acted with equal promptitude in the case of the *Black Condor*, which was allowed to proceed to Antwerp and Rotterdam on 24th September, and which returned nine tons of scrap copper to London on 16th October, after a verbal request to do so on the 4th.

The Contraband Committee had already decided on 24th September that it would in normal cases authorize ships to proceed to Antwerp or Rotterdam on receipt of satisfactory written undertakings to hold and return any goods indicated by the committee. The *Black Eagle* and *Black Condor* were, therefore, in a sense, test cases, and the prompt return of the 'seized'¹ cargo by the company in both cases led the committee to accept readily guarantees offered by the Black Diamond Line during the next two months. As a result, the guarantees were known for some time as 'Black Diamond guarantees', but the increasing use of the system led to the adoption of the term 'hold-back guarantees' in December. Guarantees were accepted in October in the case of various ships of other companies, sailing to Holland, Belgium, Denmark, and Sweden. By this stage the committee was becoming increasingly conscious of the necessity for some means of reducing delays in the examination of large mixed cargoes in the

¹ It may be noted here that the hold-back system imposed a considerable strain on the resources of official terminology, so that such words as 'seized' and 'released' had to be used for convenience in other than their strict and established meaning under prize procedure. The Contraband Committee's minutes, and the files of the Ministry, show that the verb 'to release' was used in at least three senses: (1) to describe a decision of the Contraband Committee that goods were to be neither detained nor seized; (2) to describe a decision freeing a shipowner from his obligation to return goods which had gone forward under a hold-back guarantee; (3) to describe a formal release under an Order of the Prize Court. Similarly, when the committee had decided that goods should be seized, but that they could go forward to a neutral port under a hold-back guarantee, it was usual to refer to them as 'seized' goods, although no formal act of seizure might have taken place. The difficulty was to find a convenient adjective: it was hardly possible to say 'the ordered-to-be-seized' goods in each case. The word 'retained' was suggested, but not adopted; 'seized goods' continued to be the normal description. In this account I have used quotation marks to indicate that the word is being used in this sense. The meaning should normally be clear from the context.

Mediterranean, particularly in Italian ships, and accordingly the hold-back system was put into operation in November at the control bases of Gibraltar, Malta, and Haifa. The system continued until the following spring to be widely used, and it was particularly popular with Italian and other Mediterranean shipping companies.

By taking advantage of this system the shipper was able to avoid the various expenses resulting from delay in bringing his goods to their destination. It was often inconvenient to carry out partial unloading where items ordered to be seized or detained for inquiries were overstowed, and accordingly the committee began, at the end of November, to allow 'seized' goods to go forward under the guarantee as well as goods which were subject to further inquiries. It was already clear that the arrangement, while it removed some difficulties, was likely to create others; but it was hoped at this stage that before very long the development of the navicert system would make the acceptance of hold-back undertakings unnecessary. This, however, did not turn out to be the case.

The Ministry's chief problem, and one which presented itself in various forms, was that of retaining an effective hold on the goods after they had passed out of its physical control. It could be assumed that the neutral shipper would normally return goods to an Allied port when called on to do so, as it would be to his interest to remain in the Ministry's good books. Neutral governments, however, might not be so willing to facilitate the return, and might even find it impossible to do so under their existing export-licensing regulations.

A second problem was to ensure that the use of the system did not cause the shipper more expense and delay than it saved him. This might very well happen if the ship had to stay at a British base or port while a guarantee was being provided. There was little that the Ministry could do where delays were due to the shipper's decision that, owing to the expense of reshipment and other liabilities, he did not wish to make use of the system. The committee had, however, to decide whether the conditions which it often seemed desirable to attach to the acceptance of a guarantee were, in fact, necessary.

A substantial relaxation of the original conditions was the committee's decision not to insist on the return of goods at the earliest possible moment. This step was bound up with the Ministry's third main problem in connection with the hold-back system, namely the administrative complications which arose when the goods in question came under the jurisdiction of the Prize Court. Goods might be taken to a neutral port under a hold-back guarantee, returned to a British port, and subsequently returned to the neutral port if after being released by the Procurator-General they were granted a transshipment licence by the relevant authorities. They might thus be compelled to make three journeys across mine-ridden seas instead of the

one which would have been sufficient had the hold-back system not been in operation. The heavy additional expenses for freight and storage charges which were thus incurred by the consignees or neutral insurance companies were sometimes more than the value of the goods. By December the Prize Department was being bombarded with requests that cargo ordered to be seized, which had proceeded to its port of destination under a guarantee, should be allowed to remain there pending the Procurator-General's decision.

There were, however, considerable objections, on both technical and practical grounds, to this arrangement. Until the end of 1939 the committee was more impressed by the importance of cargoes being returned promptly. With the exception of the Black Diamond Line itself, the majority of the shipping companies concerned were not doing this. In the event of invasion, these goods might fall into the enemy's hands. The main technical difficulty was that unless it could be proved, to the Procurator-General's satisfaction, that the goods in question had been effectively seized, he could not take official action with regard to them.

The Procurator-General seems instead to have felt at this stage that even if it could be arranged for a formal act of seizure to take place before ships went on to their neutral destination, there would be 'great difficulty in visualizing the Courts ordering the release of goods which were not within their jurisdiction'.

By the beginning of January 1940 it was becoming clear that the only solution would be a partial one, namely, that before calling for the return of goods the committee should, in more or less informal consultation with the Procurator-General, decide whether a case for release existed. This, however, would mean that the goods must remain for a time at the neutral port. The committee, nevertheless, accepted the risks of this, and on 11th January decided that if a claim were put forward within ten days of the arrival of the goods at a foreign port, and if within another ten days that claim was supported by documents, the consignment should lie at the foreign port until the decision of the committee was arrived at. By consulting Sir Arthur Page, the head of the Ministry's Evidence section, or 'some other lawyer', the committee would then be enabled to anticipate the probable decision of the Prize Court in certain cases, without encroaching on the prerogatives of the Procurator-General. The arrangement did not entirely satisfy the Italians, who at first assumed that the Ministry had agreed to allow goods ordered to be seized to remain at Italian ports pending the decision of the Prize Court. This, of course, was not the case; if the committee decided that the seizure was to be maintained, then the goods had to be returned without delay, although the Prize Court might still decide on release. On 16th February, following representations that the initial period of ten

days agreed to on 11th January was inadequate, the committee agreed to a period of one month for the Mediterranean. Collaboration between the Ministry on the one hand and the Procurator-General and the Colonial Office on the other, on the lines of the committee's decision of 11th January, proceeded satisfactorily during the following months.

The procedure which we have examined was in working order by the middle of January 1940, and might be described as the 'basic' hold-back system. It was already becoming clear, however, that local conditions in the Mediterranean and northern neutral countries would place various restrictions on the full use of the system. The majority of Norwegian lines claimed that they would be unable to obtain export licences to return goods after seizure, and offered instead to hold the goods indefinitely at the port of destination. These conditions were accepted in some cases, although the committee did not at first look on 'withholding guarantees' of this type with great favour. Contraband control in the case of Sweden was very much simplified by the coming into force of the Anglo-Swedish War-Trade Agreement on 20th December. As the agreement provided that the Swedish Government should prohibit the export from Sweden of nearly all Swedish imports from overseas sources, the British Government agreed not to require guarantees against re-export from Swedish consignees. A Swedish law of 4th January 1940 made it a criminal offence for any Swedish individual or firm to give a guarantee or declaration of a commercial character to the representatives of a foreign power. The British Government could, however, through its representatives on the Anglo-Swedish Joint Standing Commission, investigate particular cases in which the size of the consignment or the identity of the consignee gave rise to suspicion. In such cases, where the Contraband Committee would normally only allow the goods to go forward under a hold-back guarantee, the Swedish legation might offer a 'limited Black Diamond guarantee'. This meant an undertaking by the Swedish Government that the goods would be retained by the owners at their Swedish port of destination until the British were satisfied regarding them; it did not involve any promise that the goods would be returned.

By the beginning of January 1940 it had also become clear that delays in the return of cargo from Dutch and Belgian ports were due in part to the action of the governments concerned. The Dutch authorities commandeered 100 barrels of a consignment of lubricating oil which had been allowed to go forward on 26th November on a 'Black Diamond' undertaking, and a curt note from the Netherlands legation on 17th January said that the Netherlands Government had undertaken not to grant export licences for a range of articles until the war-trade agreement had been concluded, and also

that it was 'not in order' for consignments to the Netherlands Government to go forward under detention. In Belgium, also, various shipments which had gone forward under hold-back guarantees had been prevented by official action from returning. The correspondence with Belgium on the question was of a rather more amicable character than that with Holland, but the Belgian Government did not for some weeks show any readiness to accept the British position. Accordingly it was decided on 17th January to suspend the acceptance of hold-back guarantees for ships going to Belgium and Holland. The Netherlands legation immediately suggested, as an expedient to meet the situation, that if cargo were marked for transshipment it could be returned to England without the necessity of application for export licences. After this hold-back guarantees for Holland were again accepted freely. But no satisfactory solution of the Belgian difficulty was found, and henceforth hold-back guarantees for goods with a Belgian destination were accepted very sparingly. The Belgian Government insisted that the *Formule Le Bon*, which formed the corner-stone of the Anglo-Belgian war-trade agreement of 11th December 1939, made impossible the return of a great many goods previously imported into Belgium.¹

The form of guarantee, which was usually given on the company's notepaper, required the company to comply immediately with any instructions that might be given concerning the disposal of the cargo, and usually included an undertaking to return the goods at the first available opportunity. This the companies were, in most cases, in no hurry to do, and the Prize Department of the Ministry, which usually accepted guarantees after January without reference to the Contraband Committee, did not for some time make any serious attempt to follow the cases up. The German invasion of Denmark and Norway on 9th April at once called attention to the danger of leaving such cargoes in Dutch or Belgian ports, and on the same day the Contraband Committee decided that directions should be given for the return of all 'seized' goods which had gone forward to Holland or Belgium under hold-back undertakings. No further hold-back undertakings were to be accepted without reference to the committee. A few days later the Prize Department sent letters to all the shipping companies concerned directing them to return 'seized' cargoes to Great Britain. A substantial portion of the cargoes did, in fact, come back before the German attack.

In the Mediterranean the hold-back system was operated through the control bases at Gibraltar, Malta, and Haifa, and the issue of writs for seizure, and the consideration of applications for release of consignments which had become the subject of prize proceedings, were the business of the local attorneys-general. Here there were

¹ The agreement is discussed in detail below, pp. 206-9.

geographical and juridical difficulties which did not arise in home waters, and special methods had to be evolved for dealing with them.

By the beginning of 1940 it had become the normal practice for neutral vessels entering the Mediterranean, either through the Straits of Gibraltar or through the Suez Canal, to give hold-back guarantees; in the great majority of cases the guarantees were accepted, and the vessels allowed to proceed, before the Contraband Committee had decided whether to direct that any portions of the cargoes should be seized. When the committee had decided this point the Ministry could, under the terms of the undertaking, direct the reshipment of the goods from their neutral port of destination (usually Italian) to an Allied port. This port was usually Marseilles. Malta, Haifa, and Oran were off the regular trade routes of most of the lines, although Haifa had a satisfactory market for the sale of goods; Gibraltar was without storage facilities for goods of any bulk, and the market was very limited. In the comparatively few cases in which seizure had been directed when the vessel was at Gibraltar, and when a writ had been issued in the Prize Court of Gibraltar, no legal problem arose; orders were obtained from the Gibraltar Prize Court enabling the goods to leave the jurisdiction of that Court (for such destinations as Marseilles, Genoa, Bergen, and Copenhagen) against undertakings filed in the Gibraltar Court that the goods or proceeds would subsequently be returned to Gibraltar. But when the goods were in a neutral port at the time of the direction to seize, they were not in the jurisdiction of any Allied Prize Court, and there was, therefore, no person to whom claimants could apply for release. The practical result was that goods remained under the charge of the British naval authorities at Marseilles and serious congestion followed.

In these cases of goods diverted to Marseilles without having been made the subject of prize proceedings, there were strong objections on legal and financial grounds to a sale of the goods (except where they were of an immediately perishable nature) and the remission of the proceeds to Gibraltar to stand trial. Were the owner of the goods to prosecute a claim for release, and to succeed, he might maintain that he wanted the restoration of his goods, and not the proceeds of a forced sale in an unfavourable market. It was hardly practicable, on the other hand, to ask a neutral vessel which had already proceeded beyond Gibraltar or Haifa to return there, in order that some item or items on board be made the subject of prize proceedings, and the Court invited to direct that the goods covered by the local writ be removed to Marseilles for warehousing or sale. Accordingly, at the end of January 1940, an interdepartmental meeting, at which the French Mission was represented, advised that goods diverted to Marseilles for seizure should be seized by the French authorities and dealt with by them. The French seem to have had no objection to this

arrangement, and their formal agreement was notified by M. Morand on 1st March. At the same time the French agreed that where neutral goods had already been made the subject of proceedings in a British Prize Court, they should continue to be dealt with by the British authorities.

It is, however, difficult to say how far these arrangements were ever put into operation. The French had rightly stipulated that adequate particulars of the cargoes to be seized should be given to their authorities at Marseilles, and the rather complicated investigations do not seem to have been completed before the fall of France. In any case Italian shippers in the early months of 1940 did not adhere very readily to the rule limiting delay in reshipment to thirty days, and after the middle of March appear to have suspended reshipments indefinitely.

In general we may conclude that the hold-back system proved to be a somewhat mixed blessing. A good deal of cargo was never returned, and fell in due course into enemy hands; where cargo was ultimately released after proceeding under a guarantee to a neutral port it must often have fallen into enemy hands as well, and the possibility of disposing of it in Allied territory was lost. The system certainly prevented much friction with neutral shippers, but it provided a loophole in the blockade which could have been reduced to a minimum only by insistence throughout on the immediate return of cargoes, and this might very well have created almost as much friction as the system otherwise avoided. It was, in short, a device which reduced the effectiveness of contraband control, and could be justified only on grounds of political expediency.

NAVICERTS

The object of the navicert system, which came into operation on 1st December 1939, was to allow the British mission in an exporting country to issue a 'commercial passport', known as a 'navicert', in respect of any consignment which did not appear liable to seizure as contraband. Goods covered by a navicert could count on receiving favourable treatment by the Allied contraband-control services, although if they were carried in a ship with unnavicerted cargo they were naturally subject to any delays applying to the whole ship, and the full benefits of the system could therefore be enjoyed only by ships which carried no unnavicerted cargo at all.

Similar arrangements had been outstandingly successful in the last war. Early in 1915 the United States Consul-General in London had drawn attention to the delays and heavy port charges to which United States shipping was subjected under the British contraband-control regulations, and his proposals, after various negotiations in London and Washington, led to the institution of the system of so-

called Letters of Assurance (code name 'navicerts') on 11th March 1916. The system was welcomed in the United States, and developed successfully as a result of the friendly collaboration of the Hon. Frank L. Polk, then Counsellor of the Department of State, and Sir Richard Crawford, who was in charge of navicert arrangements at the British embassy under Sir Cecil Spring-Rice. As a result, much dangerous friction between the two governments over the British blockade was eliminated.¹ The attractiveness of the system from the American point of view was shown when the United States Secretary of State, Mr. Cordell Hull, asked Lord Lothian, on 4th September 1939, whether the British Government would agree to the discussion of the possibility of bringing into force as soon as possible an improved form of the 'Letters of Assurance' system of March 1916.

The advantages to the overseas shipper, who wanted to avoid the delay, expense, and possible dangers of detention, are obvious enough; but the system also offered considerable advantages to the British authorities. It was an advantage in itself to avoid the antagonizing of neutrals, and the saving of time at the bases made possible the more expeditious treatment of other cargoes. The system provided the Ministry of Economic Warfare with advance data on shipments which was useful for statistical purposes, and which it was hoped would be of value later in connection with schemes for rationing the imports of European neutrals; furthermore, if neutral shipping companies got into the habit of taking only navicerted cargo, it might be possible by refusing a navicert to place an effective ban on exports in conditions which would not have justified seizure. On the other hand, as the shipper was, at this stage of the war, under no compulsion to apply for navicerts, the British authorities could claim that there was no justification for the charge that they were using their belligerent rights to further their own trade at the expense of neutrals.

This type of criticism could not, however, be entirely avoided; great care was taken, in countries in which the system was instituted, to show that its introduction was to the benefit of the exporter, but the criticism that the British were dictating to neutrals on their own soil, and that the navicerts were an unjustifiable restraint on trade, certainly appeared from time to time. In the United States it played its part in the considerable phase of Anglo-American tension over British blockade measures in the early weeks of 1940, and it will be necessary to examine it in connection with other Anglo-American problems of this type in a later section (Chap. X). In general, however, the system was an undoubted success, and its organization, which will be described in this section, came into operation without undue friction or delays.

¹ The best account is in H. Ritchie, *The 'Navicert' System during the World War* (Carnegie Endowment for International Peace, Washington, D.C., 1938).

Navicerts were of two kinds. 'Z' navicerts could be issued by the British representative in the country of application on his own responsibility; others could be issued only after instructions had been received from the Ministry. The applications which had to be referred to London were those concerning articles in a so-called 'Referred List' which was worked out for the country concerned before the system came into operation. This list was in general intended to include any important articles of contraband, normally exported in any considerable quantity by the neutral country in question, and for convenience of reference it was related where possible to comparable lists issued by the neutral government; in the case of the United States Referred List, for example, the classification and commodity numbers of the 'Statistical Classification of Domestic Commodities Exported from the United States' (issued on 1st January 1939) were used. In addition to assuring himself that goods in a navicert application were not on the Referred List, the British representative had, before issuing a 'Z' navicert, to make sure that none of the persons concerned in the transaction—applicants, consignors, consignees—was in the War Trade Lists. The Ministry retained the right to revoke any navicert, 'Z' or otherwise, if after issue fresh evidence indicated possible enemy destination, or if the consignee had declined to furnish guarantees. The distinction between the two categories was intended to ensure that, as far as possible, applications for navicerts in respect of goods whose export was not controlled in the United Kingdom (namely, by export prohibitions combined with a licensing system) should be dealt with by British representatives at their own discretion, while applications in respect of goods for which there was export control in the United Kingdom should be referred to the Ministry of Economic Warfare for decision. In practice, however, the line of demarcation was hard to maintain. 'Z' navicerts had frequently to be revoked on statistical and other grounds, and when compulsory navicerts were introduced in July 1940, it was decided to do away with the issue of 'Z' navicerts altogether.

There was also the 'Ship Navicert', for which the master of a ship or his agent could apply when the whole cargo of the ship was covered by navicerts, and which was intended to minimize further the formalities of visit and search. Ships so covered could normally count on the formalities of visit and search being reduced to a minimum, and they were in fact usually given clearance at sea by a naval patrol. There was thus an important difference between a ship sailing with fully-navicerted cargo, and a ship sailing under cover of a ship navicert. In the latter case, the ship was not normally subject to any delay or inspection beyond that necessary for her identification; in the former case, the ship would, where possible, be cleared at sea without diversion to a control base, but only if the weather

permitted boarding and if the ship were found to be carrying no mails or passengers.

It was decided, after Mr. Hull's remarks on 4th September, that there need be no delay in working out plans for the introduction of the system in the United States; the State Department, however, soon began to discover difficulties, and made it clear on 9th November that it did not wish 'to take a position' at this time with regard to the introduction of the system, which it regarded as a matter between American exporters and the British authorities. It was accordingly decided that the embassy should proceed without trying at this stage to discuss the matter further with the State Department, although this mutual reticence gave rise to considerable controversy later (see p. 347 below). A press release of 20th November announced that the system would be introduced on an entirely voluntary basis as from 1st December 1939. It was operative in the first instance with regard to United States exports to Belgium, Denmark, Estonia, Finland, Iceland, Italy, Latvia, Lithuania, the Netherlands, Norway, Spain, and Sweden. Portugal, Switzerland, Hungary, and Yugoslavia were added on 6th December, and Turkey, Greece, Bulgaria, and Rumania on 21st December.

Early in December the system was also introduced into the three South American states on the Atlantic seaboard, namely Argentina, Uruguay, and Brazil. It was known that the Statutory List policy of the British Government and its treatment of foodstuffs as contraband were arousing criticism on the part of some South American governments, although it was believed that their natural inclination was to be as friendly as possible to the Allies, subject to their determination to maintain at least a façade of strict neutrality. When Sir Esmond Ovey, the British ambassador at Buenos Aires, was sounded on the point, he at once recommended that the introduction of navicerts should be suggested to the Argentine Government, and discussions accordingly took place between him and the Argentine authorities on 30th October and subsequent occasions. He emphasized the British argument that the application of the system would materially facilitate and expedite Argentine export trade, and they, 'although not exactly expressing any form of gratitude', made no objection to the system, which they regarded as primarily the concern of the shipping companies. As neutral ships leaving Argentina for Europe normally called also at ports in Brazil and Uruguay, it was essential that the system should be introduced simultaneously into the three countries, and the governments of the two latter countries had no objection to offer when they were approached on the matter in November. It was intended that when the system was working satisfactorily in the first four countries chosen, it should be extended, and plans for its extension to Peru, Chile, Ecuador, Panama, Venezuela, the Dutch West

Indies, Dutch Guiana, Bolivia, and Paraguay were under discussion before the end of December 1939. Before they could be brought into operation the extension of hostilities to Scandinavia and the Low Countries led to their indefinite postponement.

It was obvious that navicerts would have to be recognized by French as well as by British naval vessels and contraband-control bases, and that, if the French embassies undertook the issue of navicerts, precautions would have to be taken to ensure a uniform treatment of applicants. The plan agreed with the French authorities before the war was that applications for navicerts could be made either to the French or to the British embassy in the country concerned; each should be empowered to grant 'Z' navicerts which would be recognized by the naval authorities of the other; the French embassy should telegraph particulars of applications for referred navicerts either to the British Ministry of Economic Warfare or to the French mission attached to it, so that they could be considered by the same Contraband Committee. The French Government does not, however, appear to have given the question much attention after the outbreak of war, and after some discussion it was agreed that for the time being the British should issue the certificates, which would be sent to the French embassy in Washington for the French visa to be affixed. Bilingual forms were to be introduced in the middle of December, and no fee was to be charged for the French visa. Although this arrangement was at first a provisional one, it continued until the French ambassador formally withdrew his co-operation on 26th June 1940. The same arrangements for Anglo-French collaboration were put into force in the three South American states.

Applicants for navicerts could arrange for their applications to be dealt with by seaborne mail, in which case no fee was charged. Normally, however, the applicant preferred that his business should be dealt with by telegram, and a fee was charged to cover telegraph costs.

The system was in regular working order in the four American countries by the end of December 1939; 4,952 applications were received from United States exporters during the month. There was no doubt at all as to its popularity with shippers, and such difficulties as arose during the next six months were due in the main to over-optimistic views as to the speed and simplicity of the working of the relevant administrative machinery. In particular it was difficult at first to make the neutral exporter understand that the Ministry in London must be given time to complete its inquiries, and many shippers who had, in a first rush of enthusiasm, decided to take only navicerted cargo, were beginning by the end of December to complain that the system was of no help to them. Thus, in a telegram from Rio on 27th December, Sir Geoffrey Knox pointed out that, out of sixty-four cases referred to London up to 21st December, decisions

had been received on only two before the date of shipment. Shippers and steamship agents, who at first were anxious to co-operate, were showing keen disappointment and were unable to make effective their new rule to carry only navicert consignments. There were similar complaints from Washington.

The chief cause of delay was the time taken to secure guarantees of ultimate destination from consignees. The Ministry seems to have regarded a fortnight as the minimum time necessary for a reply to a navicert application, but if there were any delay on the part of the consignee it would be correspondingly longer. Various attempts were made by the Ministry in January 1940 to speed up the work in order to reduce delays to a maximum of fifteen days between the date of receiving and answering applications. The routine for the examination of navicert applications in the various departments of the Ministry was overhauled, and an attempt was made to dispense with guarantees in certain cases; it was impressed on consuls that speed was essential, and that when it was merely a case of securing the completion of the British Government's guarantee form, five days must be regarded as a maximum. At the same time consignors in the United States, Argentina, Uruguay, and Brazil were advised to cable instructions to their consignees to give guarantees without delay to the local British consul. Explanations to American press representatives in London also helped in making it clear to American exporters that the remedy for difficulties under the system lay largely in their own hands.

The criticism that the British were using navicerts to subject the exports of neutral countries to a system of permits operating in the neutral's own jurisdiction appeared from time to time. For some months the United States Treasury and State Department showed themselves to be decidedly more sensitive on this point than the United States shipping companies, and between January and April 1940 there were frequent discussions between the two governments as to the conditions on which the system should operate. These discussions, which were closely connected with other problems arising out of the blockade, are described elsewhere (Chap. X). In Argentina there was, for example, a leading article in the pro-Ally *Prensa* of 31st December 1939 strongly criticizing the system in connection with the refusal of navicerts for the export of Argentine wool to Belgium. The Argentine Woollen Federation protested at the same time to their Foreign Office. The underlying question here was whether the system could be used to ration supplies to adjacent neutrals. The United States authorities made clear their objection to any such use of the system, and it appeared that similar opposition would come from the Argentine authorities. The British Government had not yet, however, adopted the policy of forcible rationing, and the question did not come to a head at this stage. During January, the President of the

Argentine Woollen Federation entered into direct discussions with the embassy with a view to the friendly settlement of difficulties, and the Belgian problem, which had been due to the Ministry's uneasiness at Belgian exports of wool to Germany, was settled by an arrangement with the Belgian Government in February.

Outstanding problems between the British and American Governments on the navicert question were solved by the middle of April, and although the United States Government continued to avoid any official recognition of the system, it gave the British embassy unofficially all the facilities it could. Frequent unofficial consultations helped to iron out all manner of difficulties; hints dropped by the State Department to shipping companies greatly strengthened the hand of the embassy in trying to persuade the companies to exact navicerts. Thus it seemed that by the early summer of 1940 the embassy was well on its way towards its objective, namely, complete navicerting from the United States to countries covered by the system. The American Export Line and some other companies sent circulars to shippers indicating that there might be difficulties in the way of accepting their consignments if they were not accompanied by valid navicerts. It was clear that the State Department saw no reason to object to this practice. Sympathy was shown also towards the British desire that the various British consulates should make a physical check of consignments at the point of loading, although the United States Government was reluctant to agree to the carrying out of the checking by British employees. Instead, United States customs officers were instructed to conduct the investigations. In practice they do not appear to have done so on any considerable scale.

The immediate effect of the German offensive against Scandinavia and the Low Countries was a sharp fall in navicert applications, which were approaching an average of 3,000 a week in the United States in the early months of 1940. They dropped to an average of about 1,500 a month in June and July 1940. The following table shows the numbers of 'referred' navicert applications dealt with by the Ministry in this period.

Navicert Applications dealt with by M.E.W.

December 1939–July 1940

Month and year	Number received	Number granted	Number refused, withdrawn, cancelled, etc.
December 1939 .	1,480	987	493
January 1940 .	10,164	7,623	2,541
February 1940 .	15,314	10,210	5,104
March 1940 .	13,002	7,751	5,251
April 1940 .	10,306	5,730	4,576
May 1940 .	5,236	2,491	2,745
June 1940 .	2,051	1,067	984
July 1940 .	1,636	939	697

The German offensive, the entry of Italy into the war, and the revolution in America's attitude to the struggle, produced great changes in the navicert system, which will be discussed in Chapter XIII. In the meantime the system was withdrawn in respect of consignments to Denmark on 11th April 1940, to Belgium on 17th May, to the Netherlands on 18th May, to Italy on 10th June, to Lithuania on 17th June, to Estonia on 3rd July, and to Latvia on 10th July.

MEWCERTS

Contraband control in the eastern Mediterranean presented various difficulties which have already been mentioned, and it was to reduce these in respect of cargoes coming from Egypt that the issue of what were called 'Mewcerts' was arranged by the British naval authorities and the British consul-general at Alexandria, on the proposal of the Commander-in-Chief in the Mediterranean. The mewcert was a document which followed the naval clearance form (S.451) with the addition of a certificate by the War Trade Reporting Officer at Alexandria, stating that, 'on the strength of the documentary evidence so far furnished to me here, I am able to certify that the portion of the cargo specified below *appears to me to be* free of suspicion of contraband'. The form of words was intended to make it clear that the document did not necessarily exempt from contraband control the cargo which it covered, and the chief practical advantage of the arrangement was that in normal cases the small British naval forces in the eastern Mediterranean would not have to spend time diverting ships from Egyptian ports to Haifa or Malta. Great Britain's relations with Egypt also seemed to point to the desirability of some such plan. Control at Alexandria was nominally in the hands of the Egyptian Government, but the Egyptian Director-General of Customs referred requests for export permits to the British consular authorities, and permitted or refused loading in accordance with the British wishes.

The Ministry in London, however, only heard particulars of the plan from a telegram of 19th December from Sir Miles Lampson, the British Ambassador in Cairo. The obvious weakness of the system from the Ministry's point of view was that it made no use of the intelligence services in London, although even the innocuous 'Z' navicerts had to be reported, and might be revoked by the Ministry in the light of fresh evidence concerning the consignee. Accordingly the consul-general at Alexandria was instructed on 7th January 1940 to discontinue the issue of mewcerts; he was, however, told that alternative measures concerning Egyptian shipments were under discussion, and that the Ministry would recognize certificates already issued, as guarantees of non-enemy destination.

The hasty banning of the system was difficult to justify, for, in fact, the Ministry had, at the moment, nothing to put in its place. The

alternative which the Ministry had in mind was the navicert system; the mewcert was, in effect, a navicert granted without reference to the Ministry. The navicert system had, however, been devised to suit conditions in neutral countries, and the special relationship between the Egyptian Government and the British authorities suggested that an effective system of control at source could be instituted in Egypt; in this case the mewcert would really be analogous to an 'imperial export licence'. After strong representations by the Commander-in-Chief, Mediterranean, on 9th January, the mewcert system was allowed to continue for the time being, and steps were taken to tighten up the mewcert procedure.

In the meantime preparations continued for the introduction of the navicert system into Egypt and the Anglo-Egyptian Sudan. The question was discussed in March when Colonel Barron, liaison officer to the consul-general in Alexandria, visited London, and the general lines of a suitable arrangement were laid down on 16th March. Under this scheme it was proposed that the navicert system should be applied in Egypt in exactly the same manner as in the United States and elsewhere, with the exception that in all cases, before referring applications for goods on the referred list to the Ministry, the issuing missions in Egypt would arrange to obtain the usual guarantee against non-re-export to enemy territory. Special consideration had, however, to be given to cotton exports, as this complicated question involved both the existing system of allotments and the necessity of avoiding any appearance of discrimination against American cotton exports. In June, when the navicert system was about to be introduced into Egypt and the Sudan, the extension of the war to the Mediterranean led to a further postponement.

AGREEMENTS WITH FIRMS AND ASSOCIATIONS OF FIRMS

Between the outbreak of war and the fall of France the Ministry negotiated over sixty agreements with neutral companies; a few of these were shipping companies, but the majority were neutral firms engaged either in exporting from outside Europe to neutral countries adjacent to Germany, or in importing into Europe. There were also numerous negotiations with 'forwarding agents' in various neutral countries, some of whom—at Trieste, for example—were very co-operative.

The agreements arose for the most part out of contacts made when a company experienced some difficulty in securing the speedy passage of its goods through the contraband control, or in securing navicerts; the Ministry would take the opportunity of examining the nature, extent, and organization of the company's business, and, in suitable circumstances, would propose an arrangement to the company. The agreements with exporters and importers varied considerably in form

to meet neutral and British requirements in individual cases, but in general they provided facilities for the passage of goods through the contraband control, subject to the reservation by the British of belligerent rights; in return the companies agreed to some degree of voluntary co-operation with the Ministry. Thus the companies undertook to refrain from selling to the enemy, and to obtain guarantees of neutral consumption from purchasers; they also agreed in certain cases to sell only to such persons, in such quantities, and by such routes, as should be approved by the Ministry, and to refrain from buying from the enemy. Usually they also undertook to submit statements of sales, to submit to inspection by accountants, to make use of the navicert system where available, and to furnish when required further evidence of the destination of their goods. Most of the agreements were concluded with the subsidiaries in neutral countries of the big oil companies, both American and British. These included the Asiatic Petroleum Company (Shell Group), whose twenty 'fully-owned' subsidiaries gave satisfactory undertakings; the Texas Oil Company (five subsidiaries); the Anglo-Iranian Oil Company; the Gulf Oil Company; the Socony-Vacuum Oil Company (twenty-two subsidiaries); the Tidewater Associated Oil Company; and the Standard Oil Company of New York. These voluntary agreements effected, with little friction, a substantial reduction of supplies to the European neutrals. There were also important agreements with such firms as Pirelli (the largest Italian tyre and cable manufacturers), the Hungarian Rubber Goods Company (the only rubber factory in Hungary), one of the biggest Hungarian cotton factories, and a Dutch combine which controlled ninety per cent. of the sales of fruit in Holland.

By these arrangements the Ministry, while saving itself a considerable amount of routine work, secured a greater measure of control over the activities of the companies in question than was normally possible; it secured access to information and statistics which otherwise might not have been readily available, and, in cases where sales were allowed only to approved customers and in approved quantities, it was able to prevent shipments on purely statistical grounds or to deny supplies to unsatisfactory consignees, against whom there was insufficient evidence to warrant seizure. These advantages were of particular importance where the company had a monopoly control over a commodity in the world market. The Forestal Land, Timber and Railways Company, for example, controlled virtually all sales of quebracho extract in Europe; agreement with this company was followed by agreements regarding the sale of wattle bark and extract from South Africa, and later from Kenya, and control was thus obtained over two of the most important tanning materials.

The companies for their part were spared the trouble of furnishing individual guarantees of neutral consumption to cover each shipment; they were also given the right of direct access to the Ministry. This was of considerable practical convenience, as it enabled them to reduce the danger of detention and seizure by ascertaining in advance whether or not a prospective customer was likely to be approved by the Contraband Committee. The privilege of making navicert applications direct to the Ministry, instead of through the usual issuing missions, seems to have been generally welcomed as a time-saving device.

Agreements were also made with a number of shipping companies. Two main classes can be distinguished, namely those with companies operating services in the eastern Mediterranean upon short voyages with numerous ports of call, and those controlling ships upon long-distance voyages between one or more ports of loading and one or more ports of discharge.

Agreements of the first type arose out of the difficulties of contraband control in the eastern Mediterranean, which have already been discussed (see p. 75). Similar problems arose in connection with enemy-export control in this area (see p. 122 below). The only bases available were Malta and Haifa, and the diversion to these ports of ships operating in the Aegean meant a voyage of three or four hundred miles. Even so, control would not be complete unless every ship were taken to a base after each fresh port of call. In these circumstances agreements with the companies provided the least unsatisfactory form of control. The form of the agreement was developed in the light of experience, and a progressive tightening up of the control was effected.

The first of these agreements (with *Zetska Providba*) was made in December 1939, and was based upon the precedents of the last war. It contained provision for certificates of origin and interest for cargoes carried away from possible enemy sources, and for declarations of ultimate destination for cargoes intended for Central Europe. The company agreed to supply to the Ministry, at the end of each voyage, a copy of the manifest, and to refrain, on the Ministry's representations, from carrying cargo of a particular character, or from carrying it to or from any particular person. The control thus established was, however, by no means so complete as the Ministry desired, and a supplemental agreement in February 1940 introduced the hold-back arrangement. The procedure worked out in this connection was that the company would supply to the local British consul manifests of cargo loaded at ports where contraband was likely to appear; the consul would then telegraph particulars of suspicious items to the Ministry, which had the right under the agreement to hold back at the relevant port of discharge such items as it thought fit, and, if it so desired, to order their shipment to a base. This system was applied in

full in the agreement with the Royal Hungarian Danube Sea Navigation Company, which agreed to give British consuls at a number of ports lists of the cargoes there loaded. When this system was put into operation it was found that there was considerable inconvenience in having a number of telegrams coming in from various ports at different times, all relating to the same voyage, and accordingly in later agreements the British consuls at certain ports were authorized to indicate, after consultation with the master or company's agent, which items were to be held back at their ports of discharge. As these ships often carried a wide variety of small items, the British consul was allowed to use his discretion in deciding which items it was worth while to hold back; after he had made his selection, however, he telegraphed particulars to London, and the Ministry considered the items in the usual way. The agreement with the *Compagnia Genovese di Navigazione a Vapore S.A.* (the 'Capo' Line of Genoa) was on these lines.

Agreements of the second type arose mainly out of the desire of shipping companies to avoid making the call at Kirkwall, and therefore applied for the most part to ships proceeding from or to Scandinavian ports. For ships loading in the Mediterranean and making no call at Portuguese or Spanish Atlantic ports, control could be effected at Gibraltar, and exemption from Kirkwall granted; an agreement on these lines was, in fact, made with the *Svenska Orient Line*. At the time of the invasion of Denmark and Norway a number of similar agreements had been drafted. For ships proceeding from America the grant of exemption from a call at Kirkwall presented greater difficulties, but arrangements were being completed, at the time of the German invasion, whereby exemption would be granted in return for facilities for inspection of unloading at the port of discharge. From time to time a few other agreements with regard to procedure were made by the Ministry with various shipping companies.

After the summer of 1940 the changed character of the war, and the adoption of such new devices as the compulsory navicert system, made unnecessary the negotiating of further agreements on the lines we have examined in this section. A summary of the terms of the various agreements is given in Appendix IV.

(iv)

Commonwealth Export Licensing and Guarantees

It had been obvious before the war that many exports from British Commonwealth countries would be of great interest to Germany as key raw materials, and that control of these exports at source would

be more effective and satisfactory to all concerned than control at contraband-control bases. Such control at source would also, it was hoped, save time, and thereby facilitate Empire trade. Some system of Empire export licensing was, therefore, needed. It would be important to the Ministries of Supply and Food, in addition to satisfying the normal requirements of contraband control.

In the Colonial Empire licensing control was brought in smoothly and promptly in the early days of the war. On 24th August all Colonial administrations were warned by the Colonial Office to be ready to prohibit at short notice, except under licence, the export of essential articles, and on 2nd September instructions were sent by telegraph that they should prohibit, except under licence, the export of all domestically-produced foodstuffs and raw materials making up more than one per cent. by value of their normal total exports. Until further orders, and subject to any overriding need to conserve essential supplies in the dependency concerned, licences could be granted without restriction for exports to all American countries, to France, French colonies and protectorates, Portugal, Turkey, Egypt, and Iraq; they might also be granted to other non-European countries, except China, Japan, and Russia. Applications for licences for any substantial consignments to European destinations other than France and Portugal were to be refused, but could be referred, if the administration was prepared to support them, to the Colonial Office. Subsequent telegrams indicated further articles which in the case of certain dependencies were to be prohibited except under licence. Under these arrangements applications for licences for export to all European neutrals were referred by the Colonial dependencies to the Colonial Office, which in turn referred them to the Ministry for observations. By 12th October, however, the flood of applications for licences from these colonies had become so tremendous that it was agreed between the two departments that some form of decentralized control must be established quickly.

This necessity brought the system in the Colonial Empire more closely into line with that which was being worked out for India and the Dominions. Export-licence systems, similar in principle to those operating in the United Kingdom and the Colonies, had been set up in India and the Dominions after the outbreak of war, and here, too, the preliminary experience of the Ministry showed the desirability of reliance primarily on control at source. The reasons for this were, indeed, obvious enough. The constitution of the Commonwealth and its governments made it both possible and expedient to leave a wide measure of control of this side of the war effort in the hands of the Dominion authorities; control otherwise than at source would involve serious practical difficulties, such as the heavy use of the telegraph, staffing, and so on; many stages in the work of contraband control

could be carried out more efficiently by a sympathetic government in a consignor country than by naval and other control in Europe. Control at source was therefore accepted as the guiding principle in this sphere, and a general outline of proposals on these lines was made by the Minister of Economic Warfare on 3rd November 1939 at a meeting with representatives of the Dominions and India who were then in London. More detailed proposals were telegraphed to the Dominions on the 11th, and to India on the 13th.

In order that control by Commonwealth countries should be effective from the blockade point of view, the Ministry asked the Dominions to base their export-control arrangements on three essentials, namely (1) quotas, (2) declarations of ultimate destination from consignees, and (3) the refusal of licences for goods intended for consignees on the war-trade lists. The fixing of quotas meant in effect the rationing of neutral importers to their normal pre-war requirements, on lines which were already being followed by the British export-licensing arrangements. This would call for the determining, in the case of the more important Commonwealth commodities, of the amounts that neutrals should be allowed to import from all sources, and then, taking into account the amounts previously exported by Commonwealth countries, the fixing of quotas of such commodities for each part of the Commonwealth. The United Kingdom Government, in its own issue of licences for export to adjacent neutrals, limited these exports to the average of previous years (subject to supplies being available).

A good deal of progress towards satisfying the Ministry's three essentials was made during the next few weeks, and the position in December 1939 may be summarized as follows:

1. Newfoundland believed that arrangements satisfactory to the United Kingdom Government could be introduced without great difficulty; a licensing system was introduced as from 21st November, and this covered points (1) and (3) above, although it was felt to be impracticable at the moment to hold up exports while declarations of ultimate destination were being obtained. At the same time, as a basis for the calculation of quotas, particulars were sent of commodities likely to be exported from Newfoundland to countries in Europe, other than France, Portugal, and Turkey.
2. New Zealand had prohibited, save under licence, the export of all goods loaded after 7th September, and was willing to introduce a system based on the three points. It saw no difficulty in applying a quota system, and forwarded by air mail particulars of goods exported from New Zealand during 1938 to various European countries.
3. Australia had prohibited export, except under licence, as from

25th September, and in reply to the Ministry's telegram of 11th November, announced that as a temporary measure, pending the drafting of legislation to carry the Ministry's recommendations into effect, collectors of customs had been authorized in suitable cases to endorse a copy of the export entry with the words 'exportation approved', subject to satisfactory evidence concerning consignor and consignee and of non-enemy destination of the goods. These temporary arrangements applied to goods consigned to European countries, other than France, Portugal, Turkey, and Eire.

4. South Africa agreed early in December to accept the British war-trade lists, and also the ships' black list; an export-permit system would be introduced for all goods shipped or sent from the Union to neutral countries in Europe except Portugal, Turkey, and Eire. Permits would be issued only in the case of named consignors and consignees; a declaration of ultimate destination from the consignee would be required in each case. Where the consignee was not the final purchaser, his name would be submitted to the Ministry. No permits would be issued to persons on the war-trade lists; the Ministry would be advised regularly as to persons on the suspect list.
5. India was already restricting the export of goods on its list of controlled exports consigned to European neutrals (except Portugal and Turkey), and Asiatic Russia to the average monthly exports of each commodity to each country concerned during the previous three years. The Government of India recognized that its own trade statistics, on which these quotas were based, were incomplete, as they did not give the total imports into European neutral countries of the various commodities and the share supplied by India; it was 'anxious, therefore, that examination of the statistical material in the possession of the Ministry should be pressed forward as rapidly as possible'. No licences were being granted for the export of goods consigned to persons on the war-trade lists. Declarations of ultimate destination were not, however, at this stage, required except in cases which seemed to show unusual features. The Government saw no difficulty in furnishing the required weekly statistics, but felt that the despatch of manifests, however satisfactory in the case of northern neutrals, might not work so well in the case of ships clearing for Mediterranean ports.

Although the schemes of control in these five countries and in the Colonial Empire differed from one another on points of detail, they satisfied the Ministry's essential requirements at this stage, and accordingly, before the beginning of February 1940, all contraband-control bases and the Customs were instructed to accord free passage

through the control to all consignments bearing evidence of having obtained an export licence issued by the government of any part of the Commonwealth. They were, however, still to report such consignments for the Ministry's information. Consignments of Empire origin which did not bear evidence of having obtained a licence, such as goods transshipped at Singapore, were to be reported to the Ministry for contraband control in the normal way. In the case of South Africa, the arrangements were to apply only to shipments leaving there after 15th February, when export licensing was due to come into force. In practice, these arrangements could not be made immediately effective. Instructions had been sent that all goods which had been licensed must bear evidence of this fact, but it was believed that this procedure had been carried out at this stage only by the governments of Burma and of the majority of the colonial dependencies. Contraband-control bases were therefore instructed to give free passage for the time being to all consignments of commodities covered by the contraband list, proceeding from India, Australia, New Zealand, Newfoundland, and Southern Rhodesia. Canada and Eire had not introduced full export licensing, and shipments from these countries were, therefore, to be regarded as not having been controlled at source; in other words, they were to be treated as though coming from a neutral country. The same applied to cargo loaded in Egypt, the Sudan, and Iraq, with the exception of cargo covered by mewcerts issued at Alexandria and Port Sudan.

'Free passage' through the contraband control for goods covered by Canadian export licences was not arranged until the following May. An Order-in-Council had been adopted on 29th September 1939 prohibiting, except under permit from the Minister of National Revenue, the export of certain metals and minerals produced in Canada; a further Order-in-Council, of 23rd January 1940, had extended the earlier list to include a number of additional metals and minerals of Canadian production, most of which had been suggested by the Ministry of Economic Warfare. At the same time the system of export permits had been extended to include all exports from Canada to neutral European countries contiguous to territories under enemy occupation or control, exception being made only for shipments valued at not more than \$25. An Order-in-Council of 29th February 1940 applied this requirement to exports to all European neutral states except Eire, Portugal, and Turkey. Declarations of ultimate destination or an equivalent were normally required before an export permit was granted. In the case of grain, however, insistence on the prior presentation of a certificate of ultimate destination did not seem practicable, and special arrangements had been made which the Canadian Government believed to be working satisfactorily. The Ministry, early in April, made various suggestions for

the improvement of these arrangements, as a result of which Canada was able to satisfy the Ministry that effective quantitative control was being exercised. Canada agreed also to consult the Ministry with regard to permits for exports to persons on the suspect list, to extend the permit system to Portugal and Turkey, and to give further information about the grain shipments. Thus, the latter was the only outstanding problem, and it was decided in the middle of May that contraband-control bases could now be instructed to treat Canadian export licences in the same way as other Dominion export permits.

The Ministry's action in arranging for 'free passage' in the cases mentioned in the preceding paragraphs did not, of course, mean that the decentralization of the imperial export-licensing arrangements was complete. Until the quota system had been fully applied, frequent reference to the Ministry had still to be made by Dominion and Colonial Governments in doubtful cases.

The working out of quota schemes for Commonwealth exports to European neutrals proceeded steadily after the middle of October; the Ministry was able to bring a number of these schemes into operation during the early months of 1940. Until the end of November 1939 the main attention was given to the working out of agreed quotas for the export of the more important raw materials to European neutrals from India and the Colonies; this was mainly due to the necessity for coping as speedily as possible with the very heavy flood of applications for licences from the colonies after the middle of October. In due course quota figures were worked out for jute, rubber, tin, oilseeds, cocoa, asbestos, sisal, manganese, cotton, chrome, mica, and hides and skins.

The statistical work involved in drawing up these schedules was extensive, but it was straightforward enough after the basic principles of allocation had been worked out. Here, however, problems of some delicacy arose. The various parts of the Commonwealth accepted without question the necessity for limiting the imports of adjacent neutrals, but they expected that the inevitable loss of trade would be shared equally, and that any markets which became available as a result of war-trade agreements or for other reasons would be similarly shared. The keenness with which one part of the Commonwealth watched another in matters of this sort was reflected in the attitude of the various departments in London concerned with the various parts of the Commonwealth. The Ministry was well aware of this problem, and in devising its imperial export-licence quotas always took the greatest care not to favour one part of the Commonwealth at the expense of another. But the exigencies of war made it difficult for it always to adhere rigidly to mathematical niceties in the pooling of losses and benefits. Elasticity was necessary in order to make allowance for changing trade conditions, and in order to allow advantage

to be taken of new opportunities for trade which might result from a decline in normal exports from foreign countries to overseas neutrals. Moreover, it was not possible in practice to allocate the countries from which an 'adjacent' neutral should draw its supplies. It could be assumed that the Prize Court would take no cognizance of any such allocation, and if the allocations appeared to favour British or British Commonwealth, as compared with neutral, exporters, trouble might arise on political grounds. It might, therefore, happen that an adjacent neutral would obtain supplies from a foreign country considerably in excess of its pre-war purchases, and it might then be necessary to diminish the imperial quotas accordingly. In the long run, of course, the imperial quota system, which was in effect a scheme for the forcible rationing of neutrals, would have to be followed by the application of a similar scheme of restriction to the foreign suppliers of the adjacent neutrals, who might otherwise simply replace the diverted Commonwealth supplies. The Government was not ready at this stage to introduce a general system of forcible rationing, but the working out of net import figures for the neutral countries helped to prepare the statistical basis for rationing at a later date.

Consignee control also caused difficulties, particularly in connection with goods from India, although all Commonwealth countries were affected to some degree. It has been seen that the Indian authorities were prepared to refer to London applications for licences in respect of persons on the suspect list, and that application was refused when the consignee was on the statutory lists. Declarations of ultimate destination were apparently required when the goods to be exported exceeded £100 in value. There were, however, obvious practical difficulties in requiring in all cases the production in India of a declaration as a condition of the grant of an export licence; the applicant might, for example, be unable to procure a certificate from the consignee in time to obtain a licence and to take advantage of such freight as might be available. The Ministry's general aim was to make an imperial export licence equivalent to an imperial navicert, thereby reducing pressure on the various departments of the Ministry, and on the control bases. There was, however, an essential difference between the two cases, for whereas a neutral shipper could, if necessary, dispatch his goods without a navicert, the Commonwealth shipper could not do so without a licence, and might lose valuable freight opportunities as a result of delay. Plans for the issue in such cases of an export licence 'pendens'—i.e., one which would be issued on the understanding that the appropriate declaration would be sent by the consignee to the Ministry after the ship carrying the goods had sailed—became decidedly involved as soon as an attempt was made to make them foolproof. A 'white list' of trustworthy consignees

appeared to offer a simpler solution, but here, too, there were difficulties.

A plan whereby British consuls inspected the declarations and reported to the Commonwealth Governments was propounded by the Ministry on 11th March, and led to considerable discussion between the departments in London, but in the end it was not found possible, or necessary, to put the plan into operation. The India Office thought that it might lead to more confusion than it prevented; the Dominions Office on 17th April replied that no Dominion had so far indicated that such a system was needed. By this stage the extension of the war had led to the suspension of the issue of export licences to Scandinavian and Baltic countries, and under the Belgian and Netherlands war-trade agreements guarantees of destination were no longer required; the *Le Bon* formula had to be secured before an export permit was issued. The subsequent extension of the war to Holland, Belgium, and Italy simplified the problem still further.

(v)

Control of Enemy Exports

The desirability of seizing enemy exports was evident from the beginning of the war. Germany had, in 1939, few foreign assets and only limited opportunities of gaining credit abroad. The Ministry's assumption was that her assets in gold were roughly £40 millions, and her stock of foreign exchange about £15 millions. Her 1938 exports totalled about £100 millions, and though in 1939 they were probably very considerably less, great importance was attached to them, and they were being pushed by every possible means. But after the outbreak of war, German exports were not being sent abroad in German ships from German ports, but in neutral ships from neutral ports, and were often neutral-owned before shipment. As the Declaration of Paris of 1856 prevented action against privately-owned non-contraband enemy goods carried on neutral ships, there seemed to be only two grounds for seizure: either a settled policy of illegal action on the part of Germany sufficient to justify retaliatory measures, or an unprovoked attack on a neutral country.¹ Of the two, the former seemed for a time to be the more likely. In either event the Prize Court would have to be satisfied that a case for adopting a policy of reprisals really existed, and that the loss and inconvenience caused to neutrals would be justified by the magnitude of the illegalities committed by the enemy. There was also a strong

¹ German exports were not 'contraband': as they were going to neutral destinations they were *ipso facto* not 'destined for the enemy', nor were they 'susceptible of a belligerent use'.

argument in favour of postponing drastic action, which would offend neutrals, until the various essential trade agreements had been satisfactorily concluded.

It was argued in some quarters that, as Germany was a totalitarian state, all German goods belonged to the state and could be seized. It would, nevertheless, be extremely difficult to prove to the satisfaction of British Prize Courts that such goods were state-owned and not merely state-controlled, and also that, if state-owned, they had not been transferred to a neutral purchaser prior to shipment. So it seemed, during September and October 1939, that in spite of the indiscriminate bombing of civilians in Poland, and the repeated and ruthless attacks on Allied and neutral shipping, no really adequate legal grounds for reprisal had yet appeared. Evidence of German 'atrocities' was, however, collected by the Admiralty and Air Ministry, and it became apparent early in November 1939 that the ruthless attacks on shipping would soon compel resort to retaliatory measures. The probable difficulties with neutrals were fully realized, but it was felt that the aim in view—the shortening of the war—should prevail over their objections. On 14th November, a committee, convened by the Ministry to consider the legal aspects of the question of reprisals and to report on the position, stated that between the outbreak of war and 4th November, thirty-two British and three Allied ships had been sunk illegally and in some cases in circumstances of great inhumanity; as many as thirty-three neutral ships had been attacked and at least sixteen sunk in circumstances which led to the conclusion that the sinkings had been illegal. Apart from other illegalities, the German policy appeared to have no regard to the nature, ownership, or destinations of the cargo. The report pointed out that the main consideration in applying reprisals was the importance attached in international law to the frequency, as well as to the enormity, of the original wrongs in considering the reasonableness of injuries to be inflicted on neutrals as a result of reprisals. This had been brought out clearly in the judgement of the Privy Council in the *Stigstad* case during the 1914-18 war.

It was not until 18th November 1939, when a Dutch liner, the *Simon Bolivar*, was sunk by a German mine, apparently laid without any warning, in the channel in the North Sea followed by merchant shipping, with the resulting loss of 140 lives, and when in addition some six other ships were sunk by mines, also with serious loss of life, that the Allies considered that they at last had an unquestionable need for retaliation. On 19th November a recommendation that action should be taken was sent to the War Cabinet by the Minister of Economic Warfare, and on 21st November the Prime Minister announced in the House the Government's intention to take reprisals. Germany, he said, was conducting submarine warfare with a steadily

increasing disregard for the rules laid down in the Submarine Protocol of 1936; she was laying mines in a manner which constituted a flagrant violation of the Hague Convention to which she was a party and which she had announced her intention of observing as recently as 17th September 1939. It was the 'very essence' of the Convention that when anchored mines were used every possible precaution should be taken for the security of peaceful navigation. No such provision had been observed by the German Government; within the previous three days upwards of ten ships, six of which were neutral, had been sunk with a serious loss of life by German mines.

On 27th November 1939 the Reprisals Order-in-Council was published, placing an embargo on all goods loaded in enemy or enemy-controlled ports and all goods which, although not on board a vessel sailing from an enemy port, were of enemy origin or ownership. The Order was to take effect from 4th December and British representatives abroad were instructed to inform neutral governments that it was intended to bring the provisions of the Order into force gradually and with as much consideration as possible. The 'Notice to Traders', published on 28th November, advised owners of ships outward bound from Germany or from countries to which Germany had access to arrange for their vessels to call at one of the British or French control bases, and to obtain, in order to avoid delay, 'certificates of origin or interest' from the nearest British consul. The Notice defined the position of the goods in relation to the Prize Court. Goods which were required to be discharged in British ports on the ground that they were of enemy origin, or were enemy property, would be placed in the custody of the Marshal of the Prize Court; if the Court considered that they were in fact of enemy origin or ownership they would be detained or sold, unless the Court should order them to be requisitioned for government use. The Notice also provided that the 'proper officer of the Crown' would consider requests for the release of goods, or of the proceeds of the sale of goods, of enemy origin which were neutral owned: (1) if the goods were on board a vessel which cleared from her last neutral port of departure before 11th December 1939, and (2) if the contract under which the goods were ordered was entered into prior to 27th November 1939, and if 'by its terms the purchaser is obliged to take delivery of the goods on or before shipment and the goods were on board a vessel which cleared from her last neutral port of departure before 1st January 1940'. These arrangements were made in full agreement with the French Government, which issued a similar order on 28th November. The provisions were not enforced to any extent for some weeks. It was agreed with the French Minister of Blockade on 4th December that in cases where (1) payment had been made before 11th December, (2) the contract had been concluded before the date of the Order-in-Council, and

(3) shipment was effected before 1st January 1940, the goods should be passed without question. Only goods clearly shown by the manifest or bill of lading to have been consigned by a person or firm in enemy territory, or from an enemy port, should be regarded as enemy exports. Control was confined in most cases to a mere examination of ships' manifests. Even this had a considerable deterrent effect, as it was not generally realized how leniently control was being exercised, and it is probable that a considerable quantity of German exports which might have got through were never even shipped. Many neutral shippers at once refused to carry enemy goods, and several shipping lines showed themselves anxious to conclude separate agreements with the Ministry. Two such agreements were made in December 1939, the first with the Swedish Shipowners Committee (on 7th December) and the second with the Italia Line (on 16th December). Other companies made agreements later.

The Enemy Exports Committee, which was responsible for the execution of the provisions of the Order under the chairmanship of Lord Justice du Parcq, included representatives of the Foreign Office, Admiralty, Board of Trade, Colonial Office, Ministry of Shipping, the Procurator-General, the French Mission, and the Prize, Legal, Intelligence, Financial Pressure, and Foreign Relations Departments of the Ministry. On 21st December it was decided that any questions involving political consideration should be referred to an Exemptions Committee, which had a membership broadly the same as that of the Enemy Exports Committee.

In order to enforce a stricter control at the end of the initial period of leniency the Government decided that certificates of origin should be obligatory after 1st January 1940; all uncertificated goods would be detained pending the decision of the Enemy Export Committee. The committee was still, however, much preoccupied with the problem of preventing avoidable hardships, and on 15th December 1939 it drew up—for its own guidance and without publication—certain rules to govern the grant of general and special exemptions. These rules were not intended to apply to any goods consigned from an enemy port, nor to goods of enemy origin or ownership openly consigned to a person or firm on the Statutory List, and as a practical test it was agreed that goods might be regarded as neutral property if they had been paid for. Subject to these conditions it was agreed that 'ordinary' exemptions might be granted in respect of two classes of goods, namely:

1. goods shipped in vessels sailing before 1st February 1940, if they were neutral-owned at the date of shipment and had been ordered before 27th November 1939, and paid for before shipment under a contract that obliged the purchaser to take delivery and pay before shipment;

2. goods shipped in vessels sailing before 1st March 1940, if they were neutral-owned at the date of shipment and had become neutral property by being ordered and paid for before 27th November 1939.

The special point of the second provision was to meet the case of goods, ordered under a long-term contract and paid for in advance, which could be shipped only after a considerable interval. The stoppage of such goods would obviously damage the neutral purchaser and benefit Germany.

There were, however, very many cases in which it could be claimed that the refusal of exemption would inflict great hardship on neutral business men, or would be of considerable detriment to the public life and industry of a neutral country; there were also cases in which refusal would injure the Allies more than the Germans. The following long list of such 'special' cases in which exemption might be granted was drawn up by the committee:

1. Goods ordered and paid for before 27th November 1939, but for some satisfactory reason not shipped till after 29th February 1940;
2. goods ordered before 27th November 1939, and required to complete a programme of public works or other major undertaking;
3. goods containing an ingredient essential to a staple national manufacture or industry;
4. goods vital to the industrial or agricultural life of the importing country;
5. goods needed to enable a neutral country to manufacture for the Allies;
6. goods for an Allied business in a neutral country;
7. goods required for medical, relief, or humanitarian purposes;
8. goods consigned to a government for governmental use in special cases;
9. goods consigned by a neutral country in Europe to its colonies overseas in special cases;
10. educational and scientific publications consigned to an approved institution recommended by a neutral government;
11. the personal effects of refugees;
12. occasional private parcels;
13. goods of which the refusal would cause great individual hardship;
14. arms, if so desired by His Majesty's Government;
15. goods in respect of which His Majesty's Government recommended exemption.

The use of certificates of origin and interest spread rapidly. The certificates were issued in the form of a statement by the consulat

officer at the port of loading that he was satisfied that the merchandise in question had not been produced in enemy territory, and that no enemy person or firm, or firm on the Statutory List, had any interest in it. Separate certificates were required for each consignment, except in certain exceptional circumstances, as for example official Belgian shipments to the Congo, when portmanteau certificates were issued. No certificate of origin would be granted where the percentage of enemy material and labour was greater than twenty-five per cent. On 25th December the British consuls at the port of shipment were authorized to issue free of charge an 'export pass', typed on official foolscap, and stating that goods described in the document had been passed for export control. Procedure followed in enemy-export control differed from that of contraband control; in the latter case ships were automatically held until released by the appropriate committee, but in the former consignments of goods covered by certificates of origin were not detained unless special instructions were given by the Enemy Exports Committee.¹

After January 1940 copies of all certificates of origin were sent to the war-trade co-ordinating centres in the country concerned. The object of these centres was to accumulate sufficient information about firms and individuals and possible transactions to prevent certificates from being issued to any firm or individual suspected of having enemy connections. Weekly statements were sent from M.E.W., based on information received from the Intelligence Department, on firms or shipments which were in any way open to suspicion. In April 1940

¹ An Admiralty message of 28th November 1939 gave the order to the Fleet to begin export control. This order directed that no cargo was to be detained unless it was consigned from a firm in enemy or enemy-occupied territory, and gave H.M. ships power to release ships where small items of enemy exports were overstowed and where their removal would cause undue delay and expense. Control of enemy exports was tightened up in a further Admiralty message of 30th December 1939, the gist of which was as follows:

- (1) Certain ships (e.g. Swedish ships covered by agreement) were to be allowed to pass, subject to identification.
- (2) All ships outward bound from adjacent-neutral ports, except as in (1), were to be boarded.
- (3) Ships whose cargoes were covered by export passes granted by British or French consuls were to be allowed to proceed.
- (4) Ships at sea whose cargoes were not fully covered were to be diverted to a C.C. base, unless their first port of call was an Allied port, in which event they could be allowed to proceed there, the local authorities at the port of destination being informed accordingly.
- (5) C.C. bases to report all uncertificated cargo to M.E.W. M.E.W., if the destination was a neutral port, would then order that the goods be released or detained pending enquiries. In the latter event, the master of the ship to be offered the choice of (a) proceeding to a United Kingdom port as directed to unload the goods, or (b) awaiting the final decision of M.E.W. as to whether the goods were to be discharged and placed in prize or released.
- (6) No examination of outward mails to be made.
- (7) Cargoes consigned to Allied ports to be dealt with at their destination.

It may be noted here that goods landed by ships under the enemy exports Reprisals Order-in-Council were not 'seized' as in the case of contraband, but were 'discharged and placed in prize'.

consuls were instructed to send to London each week copies of all certificates issued, in addition to those sent to the co-ordination centres. These copies were then checked against the originals in an attempt to discover possible forgeries.

As was only to be expected, difficulties arose and many complaints were received from neutral exporters. It has been seen that the Notice to Traders of 28th November provided for the release of goods in certain circumstances 'with the consent of the proper officer of the Crown'. The conditions set out had made no mention of possible exemptions for enemy-owned goods, but many traders interpreted it to mean that if they could prove payment they could get exemption for their goods. In addition, some consuls in Holland and Belgium appear to have advised neutral traders that the way to establish ownership was to pay immediately. Traders who purchased on f.o.b. contracts found that few ships were available unless the goods were covered by certificates of origin or export passes; in order to obtain the necessary pass they accordingly made haste to pay before compelled to do so by the terms of the contract. In this way the whole object of the Order was defeated and large sums of money which need never have been paid went into Germany. Applications for exemption were very numerous and delay unavoidable. When these applications were refused the committee was accused of injustice on the grounds that it was the neutrals and not Germany who suffered; the same complaint came from traders who made use of 'blocked marks'.

Complaints were so bitter that at the end of January 1940 consuls at Rotterdam, Amsterdam, and Antwerp were asked by the Ministry whether in their opinion traders were being harshly treated. It was hoped by this means to discover whether the Notice to Traders had really been misleading, whether exporters had tried to break their contracts on the plea of *force majeure*, and whether traders left with goods on their hands had been able to dispose of them without loss. It also seemed likely that many firms would have private agreements with German suppliers that contracts could be cancelled if the goods could not be shipped. Replies received on 8th and 9th February indicated that there had been no complaints that the Notice to Traders was misleading. Attempts to cancel contracts had been made unsuccessfully in Holland; Dutch and Belgian lawyers were not all agreed that the plea of *force majeure* would be recognized. Most of the Belgian importers had tried to get out of their contracts and though there was no actual proof that agreements had been made with German firms it was presumed that final payment would not be made until an export pass had been obtained. There seemed to be no doubt, however, that neutral importers found it hard to dispose in Holland and Belgium of goods intended for overseas. But on the other hand, where payment had been made before it was required by the terms of

the contract, it was probably done by an agent to secure commission. Also, as most of the purchasers in the country of final destination were German, of German origin, or German controlled, the principal loss would still fall on the enemy. And finally, much of the documentary evidence given in support of applications for exemption was not genuine; all of which seemed to prove that where the committee had refused exemptions the ruling had not been unduly severe.

From the beginning of 1940 this system was in operation in all the neutral European countries except Portugal and Russia. Portugal was not an adjacent neutral and it was not at first considered necessary to make the use of certificates of origin and interest compulsory. After 1st May, however, as a result of continued reports that large quantities of German goods were passing through the country, it was decided in London to extend the compulsory system to cover all exports from Portugal. In Russia the difficulty was one of administration. There were no British consuls in the country except the consul-general attached to the embassy in Moscow, and the Soviet Government had the monopoly of all foreign trade; it was therefore almost impossible to establish the origin of most of the goods exported. Consuls were normally allowed to issue certificates only for the products of the country in which they resided, but in February 1940 the embassies at Copenhagen, Oslo, and Stockholm were authorized to allow consuls to issue certificates for goods transhipped from Russia if they were reasonably satisfied as to origin. Applications were to be made by the owner or agent of the incoming vessel and not by the forwarding agent and to be accompanied by the original bill of lading, a transshipment certificate issued by the local chief of Customs, and any other relevant documents.

During the early months of 1940, in spite of the control established, there were still many ways by which exports from Germany could reach other countries. For political reasons control in Italy was very slight and little could be done to check the flow of enemy exports through that country. Goods of high value and small bulk were sent by air through Italy to Spain, Portugal, and South America. German goods were exported to neutrals who used them for domestic consumption, exporting their own produce in exchange; for example, genuine Italian dyestuffs were exported from Italy and those of German manufacture used in their place. Finally control was practically impossible in the case of countries with which Germany had a continuous land connection, and where goods were sent through Siberia to Japan and the United States, or through the Baltic or the Black Sea.

While neutral traders were accommodating themselves with more or less unwillingness to the new arrangements, their governments were fighting their cause diplomatically with considerable vigour.

The publication of the Reprisals Order brought a series of protests from the more important neutrals. Spain, Belgium, and Norway sent formal notes, intended mainly to emphasize their strictly neutral attitude. Sweden at first made no official protest, but later felt obliged to do so, partly in order to prove to Germany that she was defending her neutral rights against all parties.

Considerable concessions were, in fact, made to Sweden as part of the shipping agreement, negotiations for which were at a critical stage when the Reprisals Order was published on 27th November. The Swedes claimed that less than one per cent. of their exports would be affected as there were very few cases in which the German interest and labour involved would exceed the twenty-five per cent. allowed. Assurances were given by the Swedish shipowners that nothing of German origin would be carried and that any merchant found to have given a false declaration would be boycotted. Special arrangements were accordingly made with the *Sjöfartskommittén* (Shipowners' Association) by which ships outward bound from Swedish ports and not carrying passengers or mail were exempted from calling at a control base. The granting of certificates of origin in respect of goods carried by Swedish ships was placed to a large extent under the control of the Shipowners' Association, which by the end of January 1940 controlled practically all Swedish shipping.

On 8th December a note was received from the United States ambassador, in which emphasis was laid on the argument that as United States ships were forbidden under domestic law to enter the 'combat zone' in Western Europe there could be no justification for interference with them on blockade grounds; the question of contraband did not arise in the case of goods *en route* from Germany to the United States. Many of the goods concerned had been paid for in whole or in part and were therefore American property and as such were protected by international law. Other goods could not be readily duplicated in other markets. The Japanese ambassador made a similar protest on 27th November, stating that his government was unable to acknowledge the British right to adopt such measures, and reserved its full and lawful commercial rights. Replying to these protests the British Government, while calling attention to the clauses in the Order which were inserted specifically to provide for the legitimate trade of neutrals, emphasized that the right of retaliation was recognized under international law, and that the measures proposed were exactly appropriate to the illegal actions by Germany which necessitated them. Moreover, they would be carried out with all consideration, and would not involve the loss of neutral vessels with their cargoes and passengers. The desirability of maintaining established principles of international law was fully appreciated, and the Allies were in fact fighting in defence of those principles.

The most strongly worded note was sent by the Netherlands Government on 22nd November. The proposals were declared to be of an 'odious nature' in that they affected the innocent as well as the guilty. Doubt was expressed as to whether the mines had in fact been laid by Germany, and the British Government was asked to give the whole question further consideration with a view to finding some method which would not interfere with neutral trade. A public exposure of the illegal acts committed by Germany was suggested as a means of preventing further incidents. A reply was sent on 14th December giving details of some of the more flagrant breaches of international law by the Germans, and proof of their guilt. Enemy aircraft had actually been observed in the act of sowing magnetic mines. It was asserted that no public exposure would have the slightest effect on the Germans, who had consistently ignored world opinion for years, and no means of retaliation could be found which would not in some way affect neutrals. Surprise was expressed that the Netherlands Government should find it necessary to complain as it had itself, under the League Covenant, regarded far more drastic action as legitimate in similar circumstances. A similar reply was sent to the Soviet Government, which had announced on 10th December that the new method of economic warfare introduced by the Order-in-Council was without precedent in the history of international relations and a further violation of international law. It was pointed out that, on the contrary, action was being taken in accordance with the well-established right of retaliation, and that similar methods had been used both in the Napoleonic and 1914-18 wars; the measures proposed were in fact less severe than those which the Soviet Union, as a member of the League of Nations, had voluntarily undertaken to apply against an aggressor. On 4th April 1940 Moscow refused to recognize these considerations as valid.

In spite of these diplomatic protests there were no serious attempts by neutral governments to force the Allies to abandon the control; there were, however, continued and varied attempts to evade it. Exemptions were granted for political reasons in several cases where the evidence would undoubtedly have justified the refusal of the application by the committee. German shipments of coal from Rotterdam to Italy were not interfered with until March 1940, and there were prolonged negotiations with, and many concessions to the demands of, United States importers. Negotiations with the Japanese, who continually discovered new grounds for exemption, were even more exhausting. It will be convenient to describe the negotiations with these three countries elsewhere.

The German occupation of Denmark, Norway, and the Low Countries, and Italy's entry into the war in June, automatically solved many of the problems of enemy-export control. It is, therefore,

a matter of merely academic interest in most cases to speculate as to how far the various obstacles to the full exercise of control would have been surmounted; the position at this stage may, however, be summarized briefly. By April 1940 the issue of the certificate of origin and the export pass was in operation in all European neutral countries other than Portugal and Russia; the risk of detention at the control bases of uncertificated consignments had resulted in a widespread refusal by shipowners to carry such cargo, although in the Mediterranean the control over shipments from Italy to southern Spanish ports was reported to be very slight, so that regular shipments of uncertificated German goods were made by these routes. There were, however, several directions in which the system of control was still not complete.

1. There was no physical examination of goods shipped, either at the port of shipment or (with the exception of Allied ports) of discharge, and none (except when the documents were obviously out of order) at the control bases.
2. Goods of German origin were in some cases being shipped under certificates obtained for genuine neutral goods. It was believed that the examination of arbitrarily-chosen sections of ships selected at random would act as an effective deterrent.
3. There was a danger that goods would be shipped under forged certificates of origin. This could to some extent be checked by an *ex post facto* control; copies of certificates of origin, which were normally retained by the consuls, could be forwarded to the Ministry, and could be checked by the actual certificates, which were forwarded to the Ministry from the control bases. Arrangements were made in April for the consuls to send duplicate copies, and for necessary staff (estimated at eight to ten girl clerks) to be provided for the checking.
4. The most widespread abuse appeared to be the disguise of German goods as neutral. This could, in general, be checked only by searching enquiry, adequate information, and *ex post facto* checking. Here, too, shortage of staff had hitherto hindered results, although the procedure was being speeded up.
5. Two classes of exports, passengers' luggage and parcels mails, remained uncontrolled until April. Intercepted letters showed that the parcels post was extensively used for exports of high value in relation to bulk, and arrangements were made for outward mails to be examined, in the case of parcels over £3 in value, after 3rd April. Little could be done with the examination of passengers' effects at this stage.
6. Effective means had not been found for the control of goods to which an enemy interest was attached, although they might

not be physically of enemy origin. Goods of neutral origin might, for example, be bought and consigned by enemy-controlled firms in neutral countries. This was the main problem in connection with the interpretation of the Order-in-Council which the Enemy Export Committee had had to consider. It was clear that the Reprisals Order gave legal powers to place in prize goods which were enemy property but not of enemy origin. There had, however, been some doubt as to how far the Government had intended that action should be taken against such goods, in view of the Prime Minister's statement on 28th November that the purpose of the Order was to stop German *exports*. Accordingly goods of enemy ownership, but not origin, had not been interfered with 'unless they were closely allied with, or in some sense analogous to, exports from enemy territory'. This meant that goods had been regarded as subject to interference when exported from Europe, but that enemy-owned goods proceeding to Europe had been left alone, unless of course they were contraband going to Germany. There was no doubt that German-owned firms in the Netherlands East Indies, South America, and elsewhere were engaged in exports on a considerable scale to neutral countries, thereby producing foreign exchange which was placed at Germany's disposal. There was also evidence that Germans in certain neutral countries were buying local produce through the clearing and selling it for free currency in another neutral country. But a tightening of the blockade to cover these cases presented many difficulties. It would often be difficult to establish a clear case of enemy ownership, and indeed, in many cases, goods would probably be sold to a neutral owner before shipment. For political reasons it would be difficult to extend the operation of the Reprisals Order to inter-American trade. It had been agreed that the Order should not be used to extend the contraband list indirectly, and it would therefore be necessary to exclude goods not on the list, of which the most important was tobacco. The minister therefore decided in April, in agreement with the Foreign Secretary and Attorney-General, that the existing policy with regard to enemy ownership should be continued, and this decision was noted by the War Cabinet on 3rd May.

In these six cases the system of control was still incomplete. The constant demand for exemptions, which took up the greater part of the time of the committee, also led to a considerable relaxing of the controls. Applications in respect of goods already on order at the time of the issue of the Reprisals Order would, of course, gradually die down, although they had by no means done so by April 1940.

A second class of applications, in respect of goods for which exemption was asked on grounds of particular hardship, for scientific or humanitarian reasons, or in cases where political expediency dictated concessions, were likely, in principle, to continue throughout the war. The committee had tried to give exemptions of this type very sparingly, but political reasons, particularly in the case of Japan, had necessitated big concessions. They constituted a serious leakage, although useful in some cases as bargaining counters.

Yet the extent of the leakages should not be exaggerated. In a minute of 11th April Sir Frederick Leith-Ross estimated that German overseas export trade had probably been reduced by eighty per cent. of its normal value, and he thought that it was a mistake to press for 100 per cent. completeness of control if this would create a disproportionate loss of goodwill in neutral countries. In a few weeks the tide of war had decisively changed the whole basis of the problem.

(vi)

Contraband Control: the Problem of Enforcement

The effective conduct of the blockade depended on the receipt of accurate information as to the activities of neutral business men, and the exertion of whatever form of pressure would prevent their trading with the enemy. This applied equally to both the 'evidential' and the 'statistical' methods of contraband control. We have hitherto been examining in the main the former of these—the limitation of exports to Germany by the provision of evidence of the enemy destination of goods or of the enemy connections of consignor or consignee. Where the goods came into the hands of the Allies through interception the traditional method of controlling contraband could operate, and shipping, credit, and insurance facilities might, in theory, also be withheld from neutral business men and firms, normally after their inclusion in the Statutory List. But these forms of control could not be rigorously applied, and it will be useful to examine at this point the difficulties of enforcement during the early months of the war. These difficulties were due partly to consideration for neutral susceptibilities, partly to the lack of an adequate statistical basis for action.

Names continued to be added to the Statutory List, and an impressive body of information was being built up as to the activities of neutral firms who were in any form of voluntary contact with German economy. Before February 1940 there had been little opportunity to digest this evidence, and a circular despatch of 6th February to British missions abroad was the first serious attempt to summarize

the experience of the preceding months. The despatch laid emphasis on the need for up-to-date and reliable evidence and the fullest investigation into the possible effects of listing on Allied interests, and this necessarily implied delay in taking action against many firms and individuals, particularly in 'overseas' neutral countries like the Latin American states and Japan. There were no lists at all for the United States. It was no doubt true that if everyone who had had dealings with Germany or with occupied territories had been placed on the Statutory List forthwith 'enormous and unnecessary damage would have been done to vital Allied and neutral interests', and an important purpose of these instructions was therefore to reconcile the aims of the Ministry in depriving the enemy of assistance with the aims of the Board of Trade in promoting and maintaining British exports. The tendency of the Ministry's policy was clearly to make the lists as comprehensive as possible, and to include not merely those who were trading directly with the enemy but also those who were engaged in propaganda and other political activities, often financed from the proceeds of business in neutral markets. On the other hand, persons of enemy origin or nationality in neutral countries were not considered to be enemies solely for this reason, and if such persons benefited the Allies by buying or selling or otherwise trading with British firms it seemed highly desirable to the Board of Trade that they should be encouraged to do so. It was undeniably true that some Germans and many Italians in neutral countries were well disposed towards the Allies. It was necessary for Great Britain to maintain some export trade in order to secure the currency resources which would enable her to buy food and raw materials abroad, and this necessary minimum of exports was so much under governmental control, with regard both to its extent and direction, that it was in no sense a mere matter of private interest and profit on the part of the British trader. While therefore the Ministry's natural tendency was to expand the lists, the Board of Trade tended to give suspected neutrals the benefit of the doubt, to exclude them from the lists until there was strong evidence against them, and to encourage them after listing to redeem themselves by giving undertakings and guarantees.

These issues were to become increasingly important later in the war, when they caused considerable misunderstanding in the United States. Until the fall of France they were mainly important from the Ministry's angle in limiting the effectiveness of the blockade, and the same is true of the control of insurance facilities. The denial of the comfort of insurance in the British market to the King's enemies was automatically secured by the operation of the Trading with the Enemy Act (1939) in conjunction with the use of the Statutory List. Generally speaking, British insurers were not permitted to deal either with a listed person or with a company which was enemy by defini-

tion. It was hoped that enemy trade might be impeded not merely by the direct withholding of Allied facilities, but also by the obstruction of neutral insurance so far as it served enemy trade, and by the reduction of the enemy's revenue from insurance by obstructing his companies and agencies abroad. A useful step was taken in October 1939 by the creation of an unofficial body, the T.W.E. Joint Insurance Committee (J.I.C.), which embraced the companies and Lloyd's, brokers and jobbers, home and foreign interests, and possessed worldwide experience. It acted as representative of the whole market; in appropriate cases licences under the T.W.E. Act could conveniently be issued to it for circulation to the market, and it served as a channel through which requests for licences were brought before and discussed with the Trading with the Enemy Department. As the war went on it became increasingly valuable to the Ministry for its advice upon ways and means by which the denial of insurance could be used in the field of financial pressure and in support of the economic blockade. But in the first period of the war the weapon could not be fully employed, and an exception was made for British insurance by the issue on 7th February 1940 of a general licence under the Trading With the Enemy Act.¹ It was argued that in the First World War British insurance had been deprived of a revenue of £90,000,000 a year in Latin America owing to the rigid operation of the T.W.E. Act, and that this had inflicted no damage on the enemy who was able, until the United States came into the war, to obtain alternative cover in the States. It was therefore arranged that in this war the T.W.E. Act should not apply integrally to insurance, and that, unless and until the United States came into the war, British insurers in Latin America should be allowed to cover local non-marine risks on behalf of listed persons.

Caution was also shown in listing. It was felt that any attempt to place on the Statutory List all the numerous branches, agencies, and sub-agencies of enemy insurance companies in neutral territories would be undesirable, not only because it would make the List unwieldy, but more particularly because any attempt to identify all these agencies would almost certainly be unsuccessful, and their involuntary omission would tend to create the impression that they were for some reason regarded as innocuous. Where, on the request of missions, exceptions were made to this rule the Ministry's policy was to list the company under its official name and at the address of the agent, but not to list the agent himself. The fact was that neutrals representing enemy companies very often represented British concerns as well and it would have been difficult for the latter to find replacements. Accordingly British insurers were licensed under the T.W.E. Act to be represented by such agents, but the facts had to be

¹ S.R. & O., 1940, No. 181.

reported to the J.I.C., which could recommend the withdrawal of the licence. Similar caution was shown in the case of ostensibly-neutral companies which were either directly owned or controlled by the enemy, or in which he held a beneficial interest. Both as a precaution based on his experience in the 1914-18 war, and as a means of circumventing nationalistic legislation in neutral countries, he had sought as far as possible to camouflage his interests and holdings in foreign countries, and while these were technically and legally Spanish, Brazilian, etc., they were often, by secret arrangements, directly under enemy control or under considerable enemy influence through reinsurance. The British authorities had in the first stages of the war to rely mainly on market knowledge of enemy connections (which, however, generally proved to be reliable), and the most effective course would have been to list the company first and allow it, if possible, to clear itself afterwards. But at this period of the war the Black List Committee preferred to demand conclusive evidence of enemy control before listing, and this was often extremely difficult to supply. It was not until after the fall of France, when the new machinery of compulsory navicerting and ship warrants had been introduced, that less rigid criteria for the listing of insurance companies were adopted.

Certain other sanctions, such as the withholding of bunkers, ships' stores, repair and dry-docking facilities, were not made much use of until after the fall of France. But the most prominent example of the Ministry's restraint was the almost complete absence of any 'forcible' rationing of the adjacent neutrals.

The machinery for the scrutiny of individual consignments and of the individual activities of neutral businesses, although it soon became very elaborate, was not enough; imports beyond the normal requirements of the 'adjacent neutrals' might benefit Germany even if the goods imported were genuinely intended for home consumption only. They might, as we have already noted, lead to the sale to Germany of similar goods already in the country; they might tempt Germany to attack; they might—in the case of a potential ally of Germany—prepare the neutral for entry into the war on the enemy's side. In addition, therefore, to the qualitative control provided by the investigation of individual consignments it was desirable to establish quantitative control of the total stocks of key commodities in adjacent-neutral countries.

This meant the rationing of the neutrals—in other words the use of the contraband-control machinery to prevent imports in excess of normal requirements. The reluctance of the Government to employ the weapon of forcible rationing has already been mentioned (p. 38). The ban was not absolute; nor was it uniformly applied. Specific cabinet sanction was required in each case, but this was granted in

March 1940 for cotton, although with the significant reservation that it was not to be applied to Italy. Before the War Cabinet could be approached, however, 'statistical control' of the situation had to be acquired by the building-up of adequate information as to the extent of neutral imports and stocks, and the difficulties of the Ministry's Statistical Section were the main reason why forcible rationing was not seriously attempted at this period.

Up to the end of 1939 the flow of statistical raw material was very incomplete. No manifests had, up to the end of 1939, been received from Paris in respect of ships detained at French bases. The war-trade reporting officers had not yet been able to produce the amount of information, particularly regarding trade across land frontiers, which was necessary for complete statistical records. Printed statistics of goods entering the five principal northern neutrals through the blockade in September 1939 could not be produced until 19th December; those for October 1939 appeared only on 12th January 1940, although after this the time-lag was progressively narrowed. These figures were in any case incomplete owing to the relatively large numbers of ships evading the control in the early part of the war, the inadequacy of information regarding land-frontier traffic, and the difficulty of confirming arrivals. Until these difficulties could be eliminated it was necessary to rely on the accuracy of the official returns of the various countries concerned, adding thereto recorded amounts of goods passing through the contraband control for the balance of the period under review. This temporary arrangement was clearly open to many technical objections. It was impossible for administrative reasons to eliminate goods seized, although it was not thought that these amounted to a significant proportion of the total. No allowance could be made for time factors arising out of the detention of goods in the control, or for goods entering other than through the British contraband control, although again this was not believed to be a significant proportion of the total in the case of the northern neutrals. Although the published neutral figures were believed to be generally reliable they were reticent on some important points. In the case of Sweden the suppression of trade returns made complete estimates for the first four months impossible.

After the beginning of 1940 these difficulties began to be removed. An important step was the decision to compile data of British exports to adjacent neutrals direct from the manifests of ships leaving British ports, instead of relying, as hitherto, on the coded summary Customs returns of British exports. The Ministry began to receive increasing numbers of the manifests of vessels passing to neutral countries through the French contraband control. There was a marked improvement in the flow of information from war-trade reporting officers, although information regarding imports of neutral countries

across land frontiers remained meagre. It also became possible, with the introduction of the navicert system and the rapid improvement of the imperial export-licensing arrangements, to gather information not only of actual exports to adjacent neutrals but also of future trends of trade, and this information was to prove of great importance later when preparations were being made for the introduction of rationing.

But despite this clearing away of various mechanical difficulties several obstacles to complete and accurate statistical recording remained. The hold-back system made it difficult to trace accurately the arrival of goods in neutral countries, and there was a formidable volume of consignments 'in suspense'—that is, goods which had not yet technically arrived but which would in most cases become actual imports later. Difficulties of this sort reached their peak in the case of Italy, not only because virtually all Italian ships were permitted to proceed under hold-back guarantees, but also because a large part of the goods so proceeding to Trieste proved in fact to be shipped 'on consignment' and were not destined for sale in Italy at all. The passing through the contraband control without scrutiny of goods covered by imperial export licences also complicated the task of accurately recording neutral trade, and a great deal of double-counting seems to have resulted from the practice of allowing 'late navicerts' (permitting navicert applicants to ship goods before their applications had been accepted). Notwithstanding these obstacles to complete statistical control there was ample evidence of a rather alarming increase of neutral imports during the winter of 1939-40. This was particularly marked in the cases of Norway, Denmark, Holland, and Belgium during the first four months of the war; by the beginning of 1940 the Ministry was satisfied that their total imports of certain commodities in 1939 must have been in excess of current needs. The figures for Holland (September-December 1939) showed that the estimated intake of wheat and wheat flour, ground nuts, soya beans, cork, wool, rubber, lead, wrought copper, and magnesite were much in excess of the normal, while practically all major commodities were over-imported in some degree. The Belgian position for the same period showed heavy importation of animal fats and vegetable oils, canned fish, fish-meal, dried fruits, rice, and coffee, with a less serious excess of cotton and wool. The case of Norway was particularly striking, with exceptionally large imports of all types of foodstuffs and fodder, and of resins, gums, shellac, turpentine, asphalt, carbon black, and teak. Textile fibres, hides, rubber, corkwood, bauxite, and alumina were over-imported for the year 1939 as a whole. Denmark showed, on balance, a heavy fall during 1939 in her imports of cereals and feeding-stuffs (including oilseeds), with the exception of oil cake. But, as with the other northern neutrals, there were in the concluding

months of 1939 abnormally large imports of fresh, dried, and canned fruits, tea, coffee, and spices and gums, and also of copper, tin, and especially lead. The import of crude cryolite from Greenland was nearly doubled in 1939 compared with the average of 1935-37. Other countries were not examined in the same detail, but certain trade movements attracted attention by reason of their unusual proportions, such as cereals, copper, and cotton to Switzerland; castor seed, lubricating oil, cotton linters, and cocoa to Italy; cotton and copper to Hungary. In general, the import trade of the adjacent neutrals, particularly in northern Europe, during the last four months of 1939, showed a wholly abnormal intake of (a) animal fats; (b) dried fruits of all kinds; (c) spices and pepper; (d) canned provisions, especially fish. In view of the shortage of fats in Germany and the emphasis placed by German experts on the necessity for the inclusion of fruits in minimum diets, the trade in the first two of these groups caused some anxiety. It was thought, however, that there was a possibly legitimate explanation in the slump in United States export prices caused by the cessation of British purchases.

The general tendency of the neutrals to import excessive quantities of all types of goods was not maintained during the first three months of 1940. Apart from the usual seasonal decline in import trade during January and February 1940, which may have been accentuated by the severe winter, there was some evidence that certain countries (such as Denmark) were finding difficulty in securing sufficient shipping to permit the indiscriminate continuance of heavy imports. There were, also, difficulties of payment. Cereal and fodder imports by Denmark fell, indeed, below normal. Elsewhere there was a marked tendency to concentrate on the import of key raw materials. Italy, which possessed practically no stocks of key commodities at the outbreak of war, and had not taken grossly excessive quantities (except of mineral oil) in the first few months of the war, began to import on a greatly increased scale in the early months of 1940.

As soon as the statistical evidence was sufficient to justify the drawing of such general conclusions as these the problem of quantitative control of neutral imports was seriously examined. None of the war-trade agreements had the effect of strengthening such control during this period. The Swedish, Belgian, and Netherlands agreements in fact tended to weaken it; they did not provide for the limitation of imports by quotas and the British undertaking to 'facilitate' the import of commodities led in practice to an almost uninterrupted flow of imports into these countries through the contraband control, regardless of statistical considerations. The Norwegian and Danish agreements did provide for the quantitative limitation of imports of important raw materials, but they were in force for too short a period before the German invasions for this to have any

practical result. The 'Southern' agreements provided for the limitation of imports according to agreed quotas, but again these quotas had not been arranged in time to be effective during this first period of the war. While they were being discussed imports continued on the understanding that any surplus over the quotas would be allowed for in the next quota period.

The Ministry did, however, begin to nibble at the problem of rationing after the beginning of 1940, and to this end attempted to work out schemes for dealing with one or two of the chief German deficiency commodities. The first serious attempt was made in the case of lubricating oil. By the end of 1939 ample evidence had come to hand that Germany was already experiencing a serious shortage of good-grade lubricants and was offering famine prices for even the most insignificant quantities in adjacent neutral countries. At the same time all of these countries were showing a desire to import excessive amounts and many firms of low repute appeared to be speculating in this commodity (to put the most charitable interpretation upon their activities). It was accordingly made known informally to the chief exporters in the United States that the Ministry would not be willing to issue navicerts for further shipments to the five northern neutrals until such time as arrangements had been made with the chief distributing interests in these countries, or their governments, to hold stocks at a proper level and in accordance with a reasonable import programme. The co-operation of the chief United States shippers was sought in the observation of this measure and a very effective response was received. At the same time the shippers were informed that any unnavicerted shipments coming forward would inevitably be subjected to serious administrative delays. In course of time, however, a piecemeal relaxation of the ban became possible. Norway undertook to keep stocks and imports below certain agreed figures, and shipments were resumed. The ban was also relaxed in the case of Sweden, partly because of her prohibition of re-exports of lubricating oil, partly for political reasons; she was acting as a channel for the supply of oil to the Finnish Government during the Russo-Finnish war. Denmark agreed to form an association of importers to regulate the trade, and to reduce the excessive stocks. Belgium, after prolonged negotiations, made a similar provision. No agreement was reached, on the other hand, with Holland, largely owing to the strongly non-co-operative attitude of the Netherlands Government, but just before the invasion the principal importers had agreed to approach the Government with a recommendation that some form of restriction of imports should be introduced in accordance with the British representations.

Some use was also made of the navicert machinery in reducing wool exports from Argentina, and we have already noted that a more

or less disguised form of forcible rationing was viewed with some uneasiness in Washington (p. 99). By March, however, the Ministry was ready for more direct methods.

It was decided to start by making a comprehensive attempt to deal with cotton; it was an important German deficiency commodity, and it had all along presented one of the chief problems of contraband control. A succession of heavy crops in the United States had resulted in a large carry-over, and this with the American export subsidy scheme had led to the movement of very large quantities of cotton into practically every country in Europe. The difficulties of exercising an effective control at source by means of export licences, navicerts, etc., were enhanced by the political importance of the cotton industry in the United States in an election year. American shippers were willing to co-operate in a scheme based on a restriction of imports into neutral countries at the importing end, but they were not prepared to limit their exports voluntarily. The position of cotton was accordingly put to the War Cabinet, which, on 7th March 1940, (a) authorized the Minister of Economic Warfare to negotiate with the governments of neutral countries to which Germany had access (other than Italy) with a view to restricting cotton imports into those countries; and (b) agreed that this object should be secured where possible by fixing import quotas by voluntary agreement, but authorized Mr. Cross to have recourse, if necessary, to forcible rationing.

Thus the principle of forcible rationing had been accepted by the War Cabinet in this first phase of the war. There was no opportunity for substantial progress before the fall of France, but the War Cabinet's decision enabled the Ministry to make a comprehensive study of the administrative machinery for rationing, and this was to prove of great value when the new machinery for control was established in the autumn of 1940. To carry out the cabinet's decision of 7th March a cotton rationing committee was formed within the Ministry. This committee drew up appropriate ration figures for each importing country and initiated negotiations with those countries to which no previous approach had been made. It also examined all the legal and administrative implications of rationing, whether voluntary or forcible, and this examination was not confined to the cotton problem; plans were elaborated of a procedure, based on 1914-18 experiences, which would be applicable to the rationing of any commodity.

CHAPTER III

ANGLO-FRENCH CO-OPERATION

THESE were good and obvious reasons why the economic blockade should be regarded as in the main a British responsibility, and we have seen that in the pre-war discussions the French were willing enough for Great Britain to take the lead. But the French had their part to play, and when they had recovered in some measure from their initial administrative chaos—the consequence of their almost complete unpreparedness for the economic war—they were not uncritical of their ally's methods. It had been agreed before the war that France should take the initiative in negotiations for a war-trade agreement with Switzerland, and that she would have a special interest in relations with neutrals adjacent to herself, such as Spain, Italy, and Belgium. She was to be responsible for contraband control off her own coasts, and between Italy and the east coast of Spain. She was to be kept informed about other economic-warfare activities, and would co-operate, on a more or less nominal footing, in such overseas activities as the administration of the navicert system.

We shall come across examples of Anglo-French co-operation or friction in later chapters, but it will be convenient here to say a few words about the administrative machinery which linked the two ministries, and their differences of temperament and approach. The Ministry of Economic Warfare early acquired a certain massive administrative thoroughness and a good professional contempt for the lively over-simplifications of its amateur critics (who were sometimes found in other government departments). It was not without a certain bureaucratic aloofness that the Ministry shook its head over much that appeared sketchy and slapdash in the *Ministère du Blocus*; and the French no doubt asked themselves at times whether the *cher collègue* in London was not missing the wood for the trees.

But the French were out of the war before these differences had developed very far. Meanwhile the French mission (*Mission Française en Angleterre de Guerre Economique*) collaborated so successfully with the Ministry that it remained throughout the chief instrument of Anglo-French liaison in this sphere. M. Georges Pernot, the French Minister of Blockade, visited London in October 1939, but the ensuing conference with Mr. R. H. Cross did little more than establish personal contacts, and open up the discussion on the improving of the machinery of collaboration. M. Pernot explained that his

Ministry, which had been instituted by presidential decree dated 4th October 1939, was very largely modelled on M.E.W., with three departments, (1) Intelligence, (2) Plans, (3) Action. A further decree of 18th November defined the function and organization of the Ministry. (By this stage M.E.W. was already making its first changes in organization, including more particularly the dropping of the Plans Department altogether.) In December Mr. Cross, accompanied by certain officials of the Ministry, visited Paris to discuss enemy-export control problems and other matters.

Throughout the winter the *Ministère du Blocus* was seriously handicapped by inadequacies of experience and staffing. A new French Minister of Blockade was appointed in March 1940. This was M. Georges Monnet, a Socialist, one of the ablest of the younger followers of M. Blum. He came to London early in April with the confessed intention of putting more life into the blockade. He proposed to reorganize the French Mission, 'as he considered that its members were not capable of handling the difficult problems with which they were confronted'. His main proposal in the field of policy was the institution of forcible rationing of adjacent neutrals; this was admittedly due primarily to the need to impress French opinion. He was anxious for a revision of the war-trade agreement with Sweden (signed in December 1939), as this, he thought, permitted over-generous supplies of iron ore to reach Germany; he emphasized the advantages of forcible rationing in the cases of Italy and the U.S.S.R., and said that the procedure of the Prize Courts would need modification, and more extended naval action would also be necessary. M.E.W. was by no means hostile to this programme and was indeed thinking on the same lines; but it was more conscious of practical difficulties. Thus a great deal of the statistical information needed for the forcible rationing of neutrals (in the shape of manifests of ships leaving French or overseas ports) was in the *Ministère du Blocus*, and very little of it had so far been sent to London, in spite of requests. The restriction of supplies to Italy and the U.S.S.R., and indeed to any neutrals, involved major political issues, and would have to be decided by the cabinets of the two countries. The opening up of the war in Scandinavia and France prevented these new proposals from making much progress.

On 15th May a reorganization of the *Ministère du Blocus* was carried through, the object of which was to facilitate the collaboration of economists with the department's officials, and to strengthen the contraband services by the addition of specialists in customs and naval matters. The changes bore out the general criticisms passed in London on the French ministry.

Generally speaking, however, the direct contacts of the British with the French ministry were limited. The maintenance of a permanent

French economic-warfare mission in London was a recognition of the British initiative, and the Ministry continued to work with France mainly through this organization. The mission started work in London on the day after war was declared, and was established in the annex to the London School of Economics, closely in contact with the Ministry, housed in the same building. In the event of evacuation it was to be sent from London with the Ministry, and to come under the same billeting and transport arrangements. As originally staffed it included twenty-six members, appointed by the French departments of Foreign Affairs, Finance, Marine, Mercantile Marine, Customs, and Trade. In addition there were typists and other clerical staff recruited in London. The mission was sub-divided into sections, each corresponding to one of the main divisions of M.E.W. French delegates could, and usually did, attend any committee held at the Ministry. Normally M. Morand, the head of the mission, called twice a day on the main departments of the Ministry. In September 1939 the Ministry appointed a liaison officer with the French mission. Co-operation continued on these lines during succeeding months. Two French representatives, Lieutenant de Vaisseau J. R. Monod, and Capitaine de Frégate Du Chayla, attended the daily meetings of the Contraband Committee until the following summer. During October 1939, contact was developed between the propaganda section of the Ministry and the French mission, which appointed a press representative. The Ministry was genuinely satisfied with these arrangements, and accordingly, when the setting-up of the various Anglo-French permanent executive committees came under discussion in October and November, its main object was to secure that the existing liaison machinery should be as little altered as possible.

The Ministry even hoped at first that the setting-up of an executive committee for economic warfare could be avoided altogether. The memorandum which M. Jean Monnet, who had come from Paris to discuss the general question of Anglo-French liaison in economic affairs, drew up after his first discussions (on 10th October) with senior British permanent officials, visualized four permanent executive committees (munitions, aviation, food, and sea transport), and an Anglo-French committee for co-ordination, to deal with all matters interesting more than one executive.¹ He referred to economic warfare as a suitable subject for discussion in the latter committee. After further discussions on 11th and 12th October, however, he brought forward a proposal that there should be an executive committee on economic warfare, composed of representatives of the Ministry of Economic Warfare and the *Ministère du Blocus*, which should meet frequently, and discuss and settle programmes of joint

¹ For the general lines of Anglo-French economic co-operation, see W. K. Hancock and M. M. Gowing, *British War Economy*, pp. 184-94.

action, including pre-emptive purchases. This M.E.W. felt unable to refuse, but it drew up on 12th October a revised and expanded version of M. Monnet's note on the functions of the committee which provided that the committee should

meet, whenever necessary, to review the progress of the two Ministries of Economic Warfare, including proposals for the purchase of commodities which it is desirable to prevent Germany from obtaining.

These terms of reference eliminated the proposal for frequent meetings, and also provided a way to a solution of the problem of French representation on the committee for the co-ordination of government purchases in neutral countries, which had caused the British some embarrassment (see below). The French accepted these arrangements, and agreed that the chairman of the executive committee should be British. The Director-General, Sir F. Leith-Ross, therefore became chairman and the first British delegate; M. Morand was the first representative on the French side. M.E.W. preferred the more informal mode of collaboration because of its satisfactory personal relations with M. Morand and other members of the French mission and its belief that any arrangement that replaced Morand by a French representative with wider powers would produce difficulties, and because of its desire to avoid loss of time and the formal submission of major decisions for the approval of the committee. In practice the committee functioned very much on the lines desired by the Ministry. The first three meetings (5th January, 24th January, 15th February 1940) were concerned almost exclusively with arrangements for the Anglo-French mission, consisting of Mr. Ashton-Gwatkin and Professor Rist, which was to go to Washington to discuss with Mr. Morgenthau the possibility of preventing the export of certain alloys to dangerous destinations (see Chapter X). The fourth meeting, on 5th April, discussed the position of the same alloys (chiefly molybdenum).

The nine months of Anglo-French co-operation in economic warfare were all too short to achieve final co-ordination of methods and ideas. But most of the immediate problems were tackled successfully enough as they arose. The London Contraband Committee had its regular French representatives, and the action of the two navies was satisfactorily co-ordinated; the contraband lists of the two countries were identical, and from time to time special arrangements were made to meet difficulties in the administration of the control.

There was a moment of tension between the embassies in Washington in November 1939 over navicert procedure; French *amour propre* seemed involved in a demand for a joint issuing authority. But the *Ministère du Blocus* evidently did not wish to be bothered with any such administrative responsibility, and it was agreed that the British

should issue the navicerts, which should be sent to the French embassy for the French visa to be fixed. In practice the entire machinery remained in British hands.

Earlier difficulties over pre-emption were eased by the Anglo-French financial agreement of December 1939 (articles 17, 19) which provided that losses resulting from blockade purchases should be shared in the proportion of two for France to three for the United Kingdom.¹ This did not, however, remove all possible difficulties, and the Treasury was asked to work out a more specific statement of the class of case that should be covered: 'our own internal wrangles', an official of the Ministry remarked, 'are likely to be child's play compared with the calculations which the French may put up to us'. No final agreement on these points appears to have been reached before the spring of 1940. Pre-emption in the strict sense (as distinct from supply purchases with incidental pre-emptive usefulness) was limited at this stage of the war. Anglo-French action was taken in the case of chrome, Mexican lead vanadate, and the surplus whale oil from the Norwegian catch. Oil was the concern of the Permanent Anglo-French Executive Committee for oil, which was, however, mainly concerned with Rumania. Full arrangements were made for French co-operation in the trading company (the U.K.C.C.) set up by the British early in 1940, and purchasing problems and the appropriate machinery were thoroughly discussed during the visit of M. Georges Monnet to London in April. The full story of pre-emption is told below (Chapter VI).

The negotiation of the war-trade agreements with the Scandinavian countries was mainly the responsibility of the Ministry of Economic Warfare, the French mission being kept informed of the course of the proceedings. The French took a greater share in the negotiations with Holland and Belgium, and difficulties arose over certain points; the British in turn were dissatisfied with the terms secured by the French from the Swiss, and insisted on further discussions. Greece protested to the British Government in December 1939 about the French Government's attitude in the war-trade negotiations, and in Spain, where the negotiations were concerned with general rather than with war trade, there were further complications. Much of the difficulty on the French side arose from serious understaffing; three officials were responsible for negotiations 'with the whole world'. This, too, largely explained the partial breakdown of the intelligence work of the *Ministère du Blocus*. By April 1940 the Ministry had received only 500 ships' manifests for November and December 1939, and none for the other months of the war. The French intentions were, however, of the best. The *Ministère du Blocus* started the publication of a weekly

¹ Hancock and Gowing, *op. cit.*, p. 190.

intelligence bulletin on 1st January 1940, and it was arranged that this should be checked against the equivalent British publication.

By the spring of 1940, when the French were feeling more sure of themselves in the economic-warfare field, they were beginning to criticize British policy rather strongly. M. Monnet, for example, complained of the 'disconcerting leniency' of the British Prize Courts. The British could reply that their courts were purely judicial in character, and in no way influenced by the executive, whereas the French Prize Court included representatives of the Navy and the Foreign Office, who had an equal voice with the judicial officers; that while both courts purported to apply international law, the French did not, like the British, feel bound by precedents and previous decisions, and had a much greater latitude in extending the law; and that traditionally all English courts required stricter proof of facts than the French. This difference was reflected in the French attitude towards seizures. It often seemed that the French authorities were applying consciously the principle of assuming guilt until innocence were proved, in other words were seizing cargo in non-French ships in French ports without any serious attempt to prove enemy destination. There were cases of the seizure of British cargo in British ships bound for British ports.

These differences in outlook had not, however, greatly influenced the relations of the two ministries during the first six months or so of the war; the *Ministère du Blocus* was so little prepared for action at the beginning that it was content to leave matters largely in M.E.W.'s hands. Later, the conduct of the French authorities suggests impatience with administrative detail rather than any lack of boldness in attack. The French seem always to have been sceptical as to the efficacy of blockade measures and to have thought (perhaps with justification) that the British tended to exaggerate their importance.

CHAPTER IV

WAR TRADE AGREEMENTS: THE NORTHERN NEUTRALS

ON the outbreak of war the Ministry at once made proposals to the Governments of Sweden, Norway, Denmark, Iceland, and Finland for the conclusion of war-trade agreements. The Soviet-Finnish war interrupted discussions with Finland, but agreements had been concluded with the other four by the end of the winter. The five states had gone some way in the autumn of 1939 in working out plans for joint action in defence of their neutral rights; sadly inadequate these plans proved to be in the hour of crisis, but they supplied a point of view which influenced all the negotiations in some degree.

(i)

The Concept of Northern Neutrality

The pacific and democratic traditions of the Scandinavian states left little ground for sympathy with Germany's ruthless and efficient overthrow of weaker neighbours. The pro-German feeling which had existed in certain quarters—particularly in Sweden—in the First World War had been due in large measure to the conviction that Russia was the chief danger to Swedish and Norwegian independence, and the Soviet-German pact of August 1939 removed any lingering hope that Germany might be looked to as a bulwark against Russian aggression, although there were some signs of a revival of this feeling in Norway during the Finnish crisis. The Soviet Government's demands on the Baltic states and Finland suggested that it was likely to revive Czarist ambitions for an ice-free port in north-west Norway. The four Scandinavian states did not feel able to meet these threatened dangers by plans for joint military action, but they hoped to give one another moral and economic support in following a policy of strict neutrality, so that the danger of provoking armed intervention by any of the belligerents would at least be reduced.

This policy was planned before the outbreak of war, and was outlined in public statements issued after a meeting in Copenhagen of the Prime Ministers and Foreign Ministers of the four states on 18th and 19th September. The Icelandic Minister to Denmark took part

in the discussions. The published statements insisted that the principal result of the meeting was to provide a strong manifestation of the determination of the Scandinavian countries to follow a policy of strictly impartial neutrality in the conflict and to uphold their right to traffic on the seas in the maintenance of their normal trade connections. The repeated emphasis on these points suggests that progress in the devising of more detailed plans of co-operation had not gone very far. In his address at the final meeting, the Danish Prime Minister did, however, refer to plans for mutual economic assistance, based on the assumption that each of the countries represented had the possibility of supporting the others if normal supplies should fail.

As the aim of the four powers was to maintain 'normal trade' they had no need, and indeed no desire, to bring these plans for economic self-sufficiency into operation at this stage. The conditions under which it might be necessary for them to do so were not publicly defined, but were obvious enough to them and to the belligerents. The two dangers which they had particularly to anticipate were: (1) the withholding of vital supplies by one of the belligerents as a means of enforcing a partial or complete cessation of supplies to another belligerent; (2) the inability of overseas firms to supply, owing to the naval or military action of the belligerents, or for other reasons. 'Normal trade' had the double advantage of maintaining the existing economic life of the four countries, and, by avoiding accusations of discrimination or profiteering, of putting in the wrong any belligerent who attempted to secure special advantages. But economic self-sufficiency, even if it could be achieved, would be no defence against military attack; the four powers could only hope that, in the case of the British and French, political traditions would prevent this, and that the Soviet Union and Germany would, owing to mutual distrust, find it expedient to leave Scandinavia alone.

During the rest of the winter 'normal trade' continued to be the objective of the four states in their negotiations with the belligerents, and although their determination to act together in the maintenance of 'strict neutrality' was proclaimed in general terms on various occasions, joint action in the economic sphere was not attempted. The Soviet attack on Finland only served to demonstrate their inability to defend each other's neutrality by practical measures. A *communiqué* after the Stockholm meeting on 19th October said that their attitude regarding all problems would be determined by their solicitude to uphold their neutral position in full independence, and that they would continue their mutual consultations regarding commercial and shipping problems arising from measures taken by the belligerents.¹ In the middle of November a conference of experts of the Oslo powers sat in Copenhagen to discuss neutrality questions,

¹ Cf. Halvdan Koht, *Norway, Neutral and Invaded* (Hutchinson, 1941), pp. 22-24; 34.

and appears to have given particular attention to the possibility of adapting the conclusions of the recent Panama conference (which, among other things, had established a 300-mile 'safety belt' round the Americas) to suit conditions in Scandinavian waters. Nothing seems to have come of this, however, although the German Government's action in extending its minefields up to the three-mile limit of Swedish territorial waters had caused the Swedes great difficulties (see p. 183). There were further meetings in the new year, and a *communiqué* at the end of February 1940, after a meeting of the Foreign Ministers of Sweden, Norway, and Denmark, foreshadowed diplomatic representations against both British and German practices in naval warfare, although in subsequent diplomatic discussions there was little attempt to deny that the compulsory resort of Scandinavian ships to British control bases was a small grievance compared with the sinking of neutral shipping by Germany's indiscriminate use of mine and torpedo. In general, it can be said that the policies of all the Scandinavian states were governed by fear of German or Russian intervention, and the boldest course that they felt prepared to adopt was the withholding of abnormal supplies to Germany in the name of 'normal trade'.

(ii)

Sweden

The war-trade discussions with Sweden made good progress, and the agreement of 7th December 1939 was the first to be signed during the war, a result due, in part, to the goodwill displayed on both sides, in part to the fact that the two governments had a reasonably clear idea before the war started of what they could hope to secure.

Sweden supplied Germany with a wide range of commodities, among which iron ore was of supreme importance for the production in Germany of high-grade steel for armament manufacture. In 1936 she had taken 72.6 per cent. by value of Swedish exports of iron ore, and it was assumed that, even if she obtained control of the Lorraine iron mines in a Franco-German war, she would be unable to dispense entirely with Swedish supplies. It was desirable also to deny to her other minerals and metals, especially copper, ferro-alloys, chalk and limestone, and pyrites; certain timber and wood products, especially sulphite cellulose; butter, oil cake, hides, skins, and tanning extracts; war stores of various kinds, and transit facilities through Sweden for contraband from Norway. Germany would naturally hope to receive her pre-war share of the Swedish exports necessary for her war industries, and would hope to secure increases, particularly in iron ore,

ferro-alloys, and wood-pulp. Her exports to Sweden included machinery and apparatus, textiles, chemicals, coal, and coke, and she could hope to maintain all these except textiles under war conditions. Germany and Austria together supplied 22·6 per cent. of Sweden's total imports in 1936, and 21·1 per cent. in 1937. On the other hand, the British and French supplied very much the same percentage, namely 20·6 per cent. in both 1936 and 1937, and these imports included textile raw materials, coal and coke, non-ferrous metals, mineral oils, fruit, and chemicals. They took a much greater quantity than Germany of Sweden's exports (33·6 per cent. in 1936 and 32·4 per cent. in 1937, as compared with 16·2 per cent. and 15·8 per cent. to Germany). In particular, Great Britain was by far the largest importer of Sweden's great staple exports of timber, wood-pulp, and paper.

On balance, therefore, Great Britain appeared to be in a rather better position than Germany for exerting economic pressure in Sweden. The Allies could control the supply to Sweden of such deficiency commodities as textile raw materials and liquid fuels, foreign fruits, colonial produce, and feeding-stuffs, and it was expected that for fiscal reasons Sweden's interest in maintaining her exports to the Allies would probably be even greater than that of the Allies in receiving them. In practice, however, several factors reduced the importance of these bargaining weapons. (1) Sweden was primarily concerned with the preservation of her independence, and was prepared to forgo economic advantages to secure this end. (2) She had built up considerable stocks and hoped, by co-operation with the other Scandinavian neutrals, to be able to dispense, if need be, with supplies from belligerents. A few days before the outbreak of war the Prime Minister of Sweden, in a public speech, said that the country had a reserve of nearly 400,000 tons of bread cereals, and that even if some of these had to be used for fodder, the stocks would suffice for one and a half years' requirements. The country was also well supplied with other foodstuffs, such as sugar. (3) Her fear of German retaliation, either in the form of submarine attack on her shipping, or even of military invasion, was too great to allow her to go very far in resisting German demands. The maintenance of 'normal trade' appeared, therefore, the policy best calculated to prevent interference with her pre-war economic and political existence.

The Prime Minister of Sweden broadcast an announcement of his country's neutrality on 1st September. The British request for the conclusion of a preliminary war-trade agreement was received without any sign of surprise or hostility, and, on 7th September, after receiving a British *aide-mémoire* with the text of the draft temporary agreement, M. Boheman, the Secretary-General of the Ministry for Foreign Affairs, told Sir Edmund Monson, the British Minister, that

his government, whose sympathies were entirely on the British side, had expected such an approach and wished to make an agreement. 'They desired especially to emphasize that Sweden did not wish to profiteer as she did during the last war. At the same time he stressed the Swedish Government's fear of German violence; they were convinced that, if they restricted exports, particularly of iron ore, beyond a certain point, Germany would make war on them.' Most of the articles set out in the schedule referred to in article 5 of the British draft had already been included in Swedish ordinances of 26th August, 1st and 3rd September, which had prohibited the exportation of certain goods from Sweden without a licence. In the light of the British schedule a further list of prohibitions was issued on 8th September. This list covered almost all the staple articles normally exported from Sweden, including mineral ores, wood goods, wood-pulp, newsprint, iron and steel products. A Swedish *aide-mémoire* of 13th September affirmed that, in accordance with its policy of strict neutrality, the Swedish Government aimed at the maintenance of Swedish exports on a normal level with countries which did not restrict their normal exports to Sweden, and that licensing would be handled in such a way as to ensure that exports to belligerents did not exceed normal proportions. It also called attention to the special importance attached by Sweden to relations between the four Nordic countries.

Germany had made her interests clear very promptly. On 3rd September a special envoy from Germany, von Hassell, the former Ambassador to Italy, called, in company with the German minister, on the Swedish Prime Minister and Foreign Minister, to say that his government wished to maintain, as far as possible, the existing trade connections between the two countries; he was apparently assured that this wish was shared by the Swedish Government. Germany proceeded to make full use of the efficient telephone service between Stockholm and Berlin to flood the Swedish press with news of German origin; reports continued to reach the British legation that Swedish importers were receiving goods, or at any rate invoices and promises of early shipment, from Germany, and it was generally believed in Swedish trade circles that the German Government had instructed German firms and exporters, including those in recently conquered territories, to fulfil their contracts with neutrals. It even appeared that Germany would be able to maintain coal exports from recently-conquered Polish territory. On the other hand, Sir Edmund Monson had to report as early as 11th September a marked decline in British prestige in Sweden owing to the serious interruption of communications with England, complaints of inability to obtain payment out of credits lying in London banks, and lack of information regarding the safe transport of merchandise across the North Sea. 'The general

impression given is that either His Majesty's Government have something serious to hide or that they were entirely unprepared for conditions.' At the end of the month the legation still feared that the decline in British prestige would materially affect the course of the agreement negotiations.

For this and other reasons the British Government was glad to accept the Swedish request that negotiations for the agreement should, in the interests of secrecy, take place in London, and after two preliminary meetings, on 19th and 22nd September, between the Swedish minister, M. Prytz, and Sir Frederick Leith-Ross, the first meeting between the Swedish mission and the British representatives took place on 29th September. It was agreed that, in view of the arrangements already made by the Swedish Government, a preliminary agreement could be dispensed with. In the *aide-mémoire* of 13th September the Swedish Government had explained that it would grant licences only for the export of articles in its first lists (which covered most of the articles mentioned in the British *aide-mémoire*) where they were compatible with home consumption requirements; the articles prohibited by the ordinance of 8th September comprised almost all the staple articles normally exported, and the exports of these would not exceed normal proportions. M. Boheman stated on 29th September that his government fully recognized the British right to exercise contraband control in such a way as to ensure that seaborne commodities would not reach Germany. On the British side it was recognized that Sweden could, to a large extent, be trusted to control her own nationals, that she could not be asked to reduce her trade with the enemy beyond a certain point unless Great Britain could offer to buy more from her, and that care would have to be taken not to endanger her food supply unless she began obviously to favour the enemy.

The main points on which agreement had to be reached were, therefore, the following. (1) The definition of the expression 'normal trade', and of the extent to which it should form a basis for the agreement. (2) The relation between the British contraband lists and the Swedish control measures. (3) Arrangements regarding payments. (4) Sweden's transit trade in articles imported from overseas, or goods manufactured therefrom. (5) Form and publicity to be given to the agreement. Sub-committees were set up to deal with iron, coal, shipping, and ferro-alloys and charcoal pig-iron; and a control sub-committee, with administrative, commodity, and food and fodder sections, dealt with questions of imports into and exports from Sweden. M. Boheman arrived back in Sweden on 30th October to report progress to his government before the opening of the Swedish-German negotiations at Berlin on 2nd November; by this time a draft agreement was ready for submission to the War Cabinet, and

M. Wallenberg, the new chairman of the Swedish trade mission, was able to inform Mr. Cross that, subject to the points which were still under discussion, his government would agree to nothing in the forthcoming German-Swedish negotiations which would contravene the draft agreement with Great Britain. After the acceptance by the cabinet at the beginning of November of the basic principles underlying the agreement, there were further negotiations during the remainder of the month, and the signature of the documents finally took place on 7th December.

The most important problem which arose in the course of the negotiations, and the one on which to a large degree the whole agreement depended, was that of iron ore. The position on both sides was defined in the first, and only, meeting of the iron-ore sub-committee on 6th October, when M. Boheman, who had taken personal charge of this part of the negotiations, made it clear that Sweden could not enter into any agreement or give any definite assurance that her exports of iron ore to Germany would be reduced below the average of the previous few years. In the central field, and particularly in the Grangesberg district, production was rising, and the output was at that time approximately three million tons a year (as compared with a normal annual output of two million tons). This increase was due to a rise in ore prices in 1936 and a consequent reopening and extension of old mines. Moreover, German-owned companies in this region were taking steps to increase the aggregate production from their mines to one million tons a year, and he placed the maximum annual production from the central Swedish fields in existing conditions at $3\frac{1}{2}$ million tons. In the northern field the greater part of the ore had been shipped in recent years from the Norwegian port of Narvik; three million tons had been going from Baltic ports, of which the principal was Luleå, ice-bound for about four months every winter. Narvik was preferred to Luleå because it was a better port, and was nearer to the Swedish mines, but it would be possible, if no governmental interference were exercised, to export from Luleå to Germany during the ice-free periods of a normal year about nine million tons of iron ore without in any way increasing the capacity of the port; with modest increases in capacity, the amount could be raised to about 11 million tons.

The British and Swedish delegates both assumed at this period that the British Navy would be able, somehow or other, to prevent supplies reaching Germany from Narvik, and it was therefore disconcerting for the British negotiators to discover that the Germans could obtain from Luleå extra supplies to an extent nearly equivalent to the amount they had formerly taken from Narvik. Sir Frederick Leith-Ross argued that if the Swedes made neutrality the basis of their policy they could maintain that it would be unneutral of them to

make alterations in the existing economic arrangements with regard to the transport or shipment of the iron ore; on these grounds they could refuse to sanction new capital expenditure, or to allow increased traffic from Luleå. They could also use their export-licensing system to prohibit a greater export from any Swedish port than the average during a normal period. Although M. Boheman stated that the Swedish Government had no intention of making any capital investments in order to increase the port facilities at Luleå or of permitting any of the independent companies concerned to do so, he thought it would be a political impossibility for Sweden to enter into any sort of agreement with Great Britain about iron ore for Germany, or to limit exports from any particular port. All he could offer was a very secret undertaking that Sweden would do her best to limit her exports of iron ore to Germany on technical grounds.

The position was a disappointing one, and the British negotiators had to decide whether any great value could be attached to the Swedish promise of 'technical' obstruction, and whether alternative measures for stopping or reducing the iron-ore trade could be adopted.

There seemed little doubt that the Swedish Government viewed with indifference, and indeed with satisfaction, any embarrassment that a reduction of Swedish supplies might impose on the German war effort. But the extreme secrecy with which the Swedish delegates cloaked their offer, and the nature of the offer itself, showed that they would attempt nothing which could provoke German retaliation, and such retaliation might be anticipated either if the Germans suspected obstruction or if the decline in exports were considerable. They said that the Germans had already given eight million tons as the smallest figure that they were willing to consider from the northern Swedish mine-fields in 1940, and had guaranteed to double at their own expense existing railway facilities between the northern mines and Luleå. The Swedes had replied that it would be unneutral of them to accept the German offer with regard to the railways, and that circumstances were such that they could not name any figure for their future output. They were prepared to adopt such expedients as pleading the necessity of undertaking fresh development at the mines instead of preparing stocks during the early part of the winter, and of increasing their own stocks before shipments could (in the spring) be released; they might also plead a serious shortage of labour owing to the calling up of miners for military service, and they might be able to divert labour from work in the mines to the improvement of the housing conditions of the miners in the northern fields. The British negotiators were unable to secure anything more than an assertion of M. Boheman's personal belief that the arrangement would be much more satisfactory to Great Britain than appeared from the conversations.

A careful estimate of the consequences of more drastic action led, however, to the conclusion that there was, on balance, more to be gained than lost by accepting the Swedish offer, and this view was adopted by the War Cabinet early in November. The essential fact was that the signature of the agreement on the lines desired by the Swedes would at least place some limitation on the iron-ore exports, whereas a failure to sign could lead to unlimited supplies reaching Germany at a time when the Allies had neither the economic nor the military weapons which would enable them to coerce Sweden effectively. As Sweden had laid in substantial stocks of most of her deficiency commodities, it was not anticipated that the cutting off of supplies by the Allies would cause her serious embarrassment for at least eighteen months; Sweden would probably reply to such an unofficial 'blockade' by cutting off Swedish supplies (such as steel manufactures vital for aeroplanes, special castings, ferro-chrome, and charcoal pig-iron) which were almost vital to the British armament industry; in addition, the inevitable alienation of Swedish public opinion might influence adversely the attitude of other northern neutrals and of the United States.

For some time it seemed possible that British coal deliveries to Sweden might be used to strengthen Swedish resistance to Germany on the iron-ore question. Under the Anglo-Swedish trade agreement of 1933, which was in force at the outbreak of war, Sweden took 47½ per cent. of her requirements of coal from the United Kingdom. This amounted to between 2½ and 3 million tons a year. She took approximately the same amount from Poland, and the small balance was made up by imports from Germany. The British coal was more expensive than the German or Polish, and every purchase of British coal entailed, therefore, the payment of a subsidy either by the Swedish Government or by the Swedish coal importers. The existing Swedish-German clearing agreement enabled Germany in normal times to finance imports from Sweden, including iron ore, and to have a clearing balance in her favour with which to service German debts in Sweden, and if, as appeared probable, Sweden were unable to continue in war-time to import German goods on the usual scale, Germany would find it greatly to her advantage to maintain the surplus of her exports over her imports by supplying Sweden with Polish coal.

The Ministry had intended at first to argue that as Poland was an ally of Great Britain, the vanished Polish quota should be replaced with British coal. At the first meeting of the coal sub-committee on 2nd October, it became clear that the Swedish Government was prepared to continue to take from the United Kingdom the normal pre-war quota, even although war-time conditions had increased the difference in price between British and Polish coal to about £1 a ton.

It was not, however, prepared under these conditions to increase its purchases. It seemed, therefore, that if British coal exports were to be increased to replace the Polish quota they would have to be subsidized to meet German competition. The Mines Department had estimated in September that the British export capacity of coal in war-time would be approximately 40 million tons, of which 20 million tons would have to be earmarked for France. This left only 20 millions for export to countries which, on the average of the years 1935, 1936, and 1937, had taken 26 million tons, and the Department had hoped that as Sweden had apparently been laying down substantial stocks, she would agree to a reduction on her peace-time imports. In October, however, the Department agreed that, in view of the considerations of high policy involved, exports to Sweden could be increased to four million tons. The Treasury, on the other hand, was unable to agree to the subsidizing of coal exports; it argued that a reduction in the prices to Sweden would necessitate a similar reduction to other countries in Europe, including Italy, and in turn this would probably have to be extended to France, Egypt, Iraq, and the American countries, thereby drastically reducing foreign exchange. Early in November, therefore, the Swedes were informed that the British Government could not at this stage do more than offer coal at prices based on British internal prices. Further discussions took place concerning the possibility of some arrangements favourable to the Swedes on the question of insurance and demurrage, but these did not affect the war-trade agreement, and the hope of using coal as a weapon in the iron-ore discussions was abandoned. It may be added here, however, that normal coal shipments were maintained to countries like Sweden and Switzerland until the German offensives in the following summer; as these supplies were badly needed, they no doubt helped to improve the atmosphere in which subsequent economic-warfare discussions were conducted.

The position with regard to commodities other than iron ore caused less discussion. Sweden readily undertook (subject to certain exceptions) not to grant licences for the export of commodities which the British Government allowed to pass into Sweden through seas under its control; special consideration had, however, to be given to some commodities which the Allies would require to purchase from Sweden, either in the raw state or after finishing. The ferro-alloys were particularly important in this connection. In the case of tungsten and ferro-tungsten, chrome-ore and ferro-chrome, and vanadium and ferro-vanadium, special arrangements were made whereby the British Government would permit the import, by sea routes under Allied control, of quantities of tungsten ore, chrome ore and vanadium sufficient to enable Sweden to manufacture the ferro-alloys in question to meet her own internal, and Allied, requirements. In each case

Swedish pre-war contracts to supply Germany were to be implemented from stocks held by Sweden at the outbreak of war, and on the completion of these contracts no further export of these commodities from Sweden to Germany was to take place. The same provisions applied, in the case of manganese and ferro-manganese only, to imports into Sweden of manganese ore from West Africa; ferro-silicon and silico-manganese could also be dealt with by Sweden on the basis of normal trade, except that imports into Sweden of high-grade coke breeze from Scotland and coal from County Durham were only to be used for manufacturing ferro-silicon and silico-manganese for domestic and Allied requirements. Molybdenum and ferro-molybdenum, pig-iron made with charcoal, and Swedish bar iron, high-speed and other special steels, and wrought copper were to be dealt with on the basis of normal trade.

The negotiations with regard to foodstuffs and fertilizers were on similar lines; the Swedes were persuaded to place as many items as possible on the closed list, but it was hoped that Great Britain would continue to secure supplies which were dependent on imports to Sweden passing through the British contraband control, and that supply in these cases to Germany would be excluded. The principle could, however, only be established in special cases, as Sweden was, as usual, able to plead that she was too much afraid of Germany to restrict supplies beyond a certain point. Exports of butter to both belligerents were to continue, but were to be progressively reduced so as to be discontinued completely after six months (from 1st December 1939). Sweden's exports of pigs and pig-products were dependent on the importation of feeding-stuffs, but the British negotiators failed to secure a monopoly of Swedish exports. Instead, Great Britain was to receive normal supplies of bacon, hams, pork, etc., while Germany was to receive bovine cattle, sheep, lambs, and swine 'on the hoof'. These were not normally exported to Great Britain. Eggs were to be exported to both belligerents on the normal trade basis.

Towards the end of the negotiations the Swedes made an attempt to secure Britain's agreement to the processing in Germany of raw materials on the prohibited list. The primary British objection to this was not that Germany would retain the commodities—if she did so on any occasion further supplies could be cut off—but that the practice would enable Germany to obtain a valuable source of foreign exchange for no expenditure of raw materials on her part. The proposal that Sweden should replace raw materials used in German manufactures for the Swedish market was objected to on similar grounds. After some delay, the Swedish request was rejected, except with regard to the printing and dyeing of textiles. It was agreed, however, that in certain cases the prohibition should not operate for six months.

There was, finally, the problem of defining 'normal trade'. At the beginning of the negotiations the British had proposed that the average figures for Swedish exports for the ten years before the war should be used for this purpose. On more than one occasion in the middle of September, the Swedish minister had himself suggested this ten-yearly basis, which would have benefited the Allies owing to the big increase in Swedish exports to Germany after 1935. The British Government had, however, more or less committed itself to the 1935-38 period in the provisional war-trade agreement, and by the middle of October both sides had agreed to take the 1938 figures as normal. This suited the Swedes, as it would be easy for them in any future controversy with Germany to defend the logical basis of the choice of the last year of peace, and as Sweden's sales to Germany had been rather less, and those to Britain rather more, in this than in other recent years, the British were not dissatisfied.

The trade-agreement negotiations were accompanied by parallel negotiations carried on by the Treasury for a payments agreement, and by the Ministry of Shipping for a shipping agreement. The latter provided that all trade between the United Kingdom and Sweden should, as far as possible, be carried in both directions in Swedish vessels, that all Sweden's overseas imports should be carried in Swedish vessels, and that any surplus tonnage or cargo space should be chartered to the British. In agreeing to the iron-ore arrangement at the beginning of November, the cabinet was influenced by its desire to bring the shipping agreement into operation immediately. The decision to seize German exports seemed likely to provide a last-minute hitch, as the Swedes were not prepared to conclude the shipping agreement unless some arrangement could be reached which would make it unnecessary for the great number of their outward-bound vessels to call at control bases in the United Kingdom. The shipping agreement was considered so important that the British Government agreed to large concessions to the Swedes whereby the *Sjöfartskommittén* was to undertake the investigation of the country of origin of cargoes shipped in its vessels. These concessions were embodied in letters which were to be exchanged between Sir George Mounsey and M. Carlsson, the representative of the Swedish Ship-owners' Association, with which the shipping agreement was made. This agreement was then initialled (on 28th November). The Swedes were not prepared to sign it until the war-trade agreement was also ready for signature.

The documents setting out the agreement consisted of a protocol which defined in very general terms the main bases of the agreement, Swedish and British declarations concerning the obligations of each power under the agreement, and the constitution of, and instructions to, the joint standing commission set up under article 4 of the protocol.

The instructions contained detailed provisions with regard to various commodities which had been under discussion during the previous two months. The agreement came into operation officially on 20th December, and knowledge of its conclusion was kept secret until the completion of the German-Swedish negotiations. The signing of the agreement was finally announced, by arrangement between the two governments, on 28th December.

It will be seen from this account that the two main provisions on which the agreement was based were first, that no obstacle should be placed by the British authorities in the way of the import by Sweden of reasonable quantities of commodities derived by Sweden from across seas other than the Baltic, providing that Sweden undertook to prohibit the export of these commodities; secondly, that Sweden should be entitled to export all other commodities up to the level of her 1938 figures, which were taken to represent her 'normal trade'. The commodities in the first group were set out in a list attached to the Swedish Declaration as annex A. There were various exceptions to both these provisions. Sweden could grant licences for the export of schedule A commodities:

1. to Denmark, Finland, Iceland, and Norway;
2. when these commodities were marked with an asterisk in schedule A, and were used in quantities which did not represent more than $12\frac{1}{2}$ per cent. by value of a manufactured article normally exported;
3. when they formed part of commodities listed in annex B (articles which contained schedule A commodities in excess of $12\frac{1}{2}$ per cent. of their total value), providing that these exports did not exceed in value two million Swedish kronor per annum;
4. where they formed part of certain Swedish products and manufactures destined for neutral markets approved by Great Britain, and set out in the special instructions to the standing commission, or where the standing commission had agreed unanimously to add either destinations or commodities to this class.

The 'normal trade' provision was subject to the following conditions:

1. Sweden could increase sales of any of the staple commodities of purely Swedish origin specified in annex C if the increase was necessary to maintain a normal trade balance, or if it could not be considered to favour the belligerent concerned.
2. If both belligerents desired to exceed their 1938 figures, they could do so, provided that the sales to each belligerent represented the same proportion of the total trade of both belligerents in the commodity concerned as was the case in 1938.

3. Sales could not be made to a belligerent of articles which were not sold to that belligerent by Sweden in 1938.
4. Sweden was entitled to import raw material from a belligerent in order to convert it into a finished product for export to the same belligerent.

Various points were defined in letters to and from Mr. Cross, all dated 7th December. In a letter to M. Wallenberg, he referred to the British undertaking in the protocol to endeavour to maintain British exports to, and imports from, Sweden at their normal level, and said that 'to avoid any possible misunderstanding' he wished to say that 'this undertaking must inevitably be read as subject to the exigencies of war-time'. In a second letter of the same date, he agreed that the British members of the Standing Commission would, during the first six months of the agreement, raise no objection to the processing in Germany of stocks not exceeding the following amounts: 12 tons of tin, 10 tons of raw cotton, 300 tons (in aggregate) of copper, brass, and aluminium. M. Wallenberg gave an undertaking in a further letter that the Swedish Government would not avail itself of the permission to export class A goods to the other Scandinavian countries unless 'an assurance against re-export from each of these countries in a form approved by the Government of the United Kingdom has been given to the Government of the United Kingdom by the Government of such country, and is regarded as satisfactory by the Government of the United Kingdom'. The British Government had, however, agreed not to insist on the application of this provision when negotiations for the conclusion of a war-trade agreement with one of the Baltic states was in progress.

One of the most important results of the discussions was, from the British angle, the Swedish promise of technical obstruction of iron-ore supplies to Germany. This could not be put on paper, but it had considerable weight with the War Cabinet, which was already deeply involved in plans to reduce the ore exports by non-diplomatic means. During the early months of 1940, while the war-trade agreement was being applied by both parties with the minimum of friction, the iron-ore question was a matter of major importance in the high strategy of the Allies. It will be examined separately in the last section of this chapter.

(iii)

Norway

Although the British minister, Sir Cecil Dormer, opened discussions on the draft war-trade agreement with Professor Koht, the Norwegian Minister for Foreign Affairs, on 5th September 1939, an

agreement was not signed until 11th March 1940. The negotiations proceeded more slowly, and more acrimoniously, than those between Britain and Sweden. The British had more extensive means of pressure in the case of Norway, and this stimulated Norwegian resistance; the real cause of delay was, however, that Norway had a greater fear of German reprisals, and was at the same time more tempted to seek high profits from Great Britain, than her neighbour.

The British Government wished to deny to Germany the use of Norway's rich resources of timber and wood-pulp, fish and fish products, hides and skins, non-ferrous metals, and ferro-alloys; Great Britain herself could, if necessary, dispense with all of these, but she was vitally interested in securing the use of Norway's large and well-equipped merchant fleet. Of great importance to both belligerents was the fact that so large a proportion of Swedish iron ore was exported through Narvik, and it was therefore highly desirable to Great Britain that Norway should regulate this transit trade so that, while exports to Britain continued, those to Germany were stopped; alternatively, Great Britain would gain more than she lost by its being cut off altogether. In the economic sphere she was certainly in a much better position than Germany for exerting pressure. The Allied countries supplied in peace-time some thirty per cent. of Norway's requirements, as against 17·5 per cent. from Germany, and they took thirty-five per cent. of her exports, while Germany took fourteen per cent. Ninety-three per cent. by value of Norway's imports, and ninety-seven per cent. of her exports, were seaborne, and therefore very largely at the mercy of the predominant naval powers. Moreover, while Norway could, if necessary, dispense with most of her imports from Germany, she could not dispense with the bread cereals, textile raw materials and manufactures, and the mineral oil needed by the Norwegian fishing fleet, which came to her through the Allied shipping control.¹

It was realized, however, from the beginning of the negotiations that while every effort should be made to induce Norway to prohibit the export or transit of contraband to Germany, this policy could not in practice succeed beyond a certain point. She was understood to have accumulated considerable stocks, and she could retaliate against pressure by refusing to charter her surplus tanker and other tonnage. France's dependence on neutral shipping was even greater than Britain's, and she, like Great Britain, was likely to depend heavily on Norway for wood-pulp and non-ferrous metals. Norway also made full use from the beginning of the negotiations of the argument that her exposed position and lack of defensive equipment made it impossible for her to go very far in resisting German demands: the

¹ See Professor Koht's comments on Norway's attitude to the Allies (*Norway, Neutral and Invaded*, pp. 25-28).

inability of the Allied Governments to guarantee her immunity from German attack was never in much doubt. On the general issues of the war there was no doubt that the great bulk of Norwegian opinion favoured the Allies, but it was by no means certain that any serious breach of neutrality or act of coercion by the Allies would not stampede the country into a support of Germany which it would afterwards regret.

On 26th August the Norwegian Government issued a general export prohibition, from the provisions of which a number of 'typical Norwegian export commodities' were omitted. Later the provisions were extended to include nearly all the country's exports. When the German army marched into Poland on 1st September, Norway issued a declaration of neutrality, and two days later this was extended to cover the war between the Allies and Germany. Although the German Government announced ostentatiously that it intended to respect Norwegian neutrality, Professor Koht did not at first consider that similar declarations from the French and British Governments were necessary. On 5th September, however, he said that hitherto he had been convinced that Great Britain would respect Norwegian neutrality, but after reading the British *aide-mémoire* on the war-trade agreement, he was less sure. The British minister treated this remark lightly, and the Professor calmed down, but it was clear that he was alarmed at the 'complete control of Norwegian commerce' which the British seemed to him to be demanding. He admitted that on the previous day Herr von Hassell had said that all Germany asked was a continuance of normal trade, but that if Norway allowed a belligerent to control Norwegian commerce, Germany would regard it as unneutral. Before the discussions could develop much further, Sir Cecil Dormer was instructed on the 7th that the British Government intended to delay the conclusion of a general war-trade agreement pending a favourable decision by the Norwegians regarding their shipping.

The negotiations for the shipping agreement were conducted by the Marine Department of the Board of Trade, and later by the Ministry of Shipping, and the details need not be discussed here. After preliminary discussions an official Norwegian delegation arrived in London at the end of September; it was, however, without full powers and was soon compelled to return to Norway for instructions. Lord Halifax made a strong protest to the Norwegian minister in London about this unnecessary delay. Fresh discussions started on 24th October with a new Norwegian delegation despatched by the Association of Norwegian Shipowners with the concurrence of the Norwegian Government. The delegation demanded excessively high rates for charter and war-risk insurance, and there were differences of opinion as to the war zones in which the ships might be used; the

agreement was not initialled until 11th November. It provided for the chartering by the Allies, on terms very favourable to the Norwegians, of approximately $1\frac{1}{2}$ million tons deadweight of ocean-going tankers and 700,000 tons of tramp tonnage for the duration of the war, and was to come into force at once. A letter of 14th November from the Norwegian Government stated, however, that the chartering of Norwegian ships in foreign trade could not take final effect without the charter-party being previously submitted for approval to the Norwegian Government, whose final approval might 'meet with difficulties' if a war-trade agreement should fail to be concluded. It soon became clear that the Norwegians were in fact determined to prevent the full implementation of the shipping agreement until the war-trade agreement had been signed.

The Norwegians, for their part, grumbled at the tactics of the British Government and appear to have been alternately puzzled and alarmed at its conduct, although they no doubt exaggerated this sense of grievance for tactical reasons. The maximum programmes of the two governments were set out in September and revealed wide differences. A Norwegian memorandum of 11th September stated that: (1) the exchange of goods between Norway and Germany was based on the clearing agreement of 6th September 1934, and on various supplements and amendments, and the Norwegian Government wished to maintain only the 'normal exchange of goods' prescribed by this agreement; (2) the *Norges Statistiske Sentralbyrd* published monthly statistical returns of the value of Norwegian exports and imports to individual countries; (3) the Norwegian Government reserved its right to re-export goods to other northern countries, in return for a guarantee that they would not be exported to any belligerent country; (4) it ventured to assume that the British Government would not place obstacles in the way of the import of goods necessary to maintain economic existence in Norway on a 'fairly normal basis'. From the British point of view this statement had various unsatisfactory features. The statistics offered were of values, not quantities; a 'fairly normal' basis might be very far from normal in practice. The main objection, however, was that the British Government felt that its economic hold on Norway was strong enough for it to object successfully to the continued export to Germany of certain Norwegian goods—particularly those dependent in whole or in part on seaborne supplies. Sir George Mounsey outlined the British requirements to M. Colban, the Norwegian minister, on 26th September. These were: (1) the imposition and maintenance by Norway of export and import control to the satisfaction of the United Kingdom; (2) an undertaking not to re-export any imported contraband goods; (3) an undertaking to limit to an agreed figure the export to Germany of goods produced in Norway; (4) an undertaking

to restrict the export to Germany of goods containing imported raw materials; (5) an undertaking to prohibit all transit trade by land or sea to Germany; (6) an undertaking that financial dealings with Germany should not be carried on by credit, and that no balance favourable to Germany should be allowed to grow up; (7) facilities for the transit of goods en route between the United Kingdom and Sweden, Finland, and the Baltic states; (8) a satisfactory arrangement as to coal. M. Colban appears to have accepted quite readily the view that negotiations for the war-trade agreement should not commence until the shipping negotiations were 'sufficiently advanced'.

By the middle of October the Norwegians were beginning to feel the effect of the British restrictions on imports, and pressed for some relaxation of these restrictions and the sending of a small delegation to Oslo to commence the trade-agreement negotiations. In view of the state of the shipping negotiations the Ministry was unable at this stage to agree to either of these requests, although it almost completed arrangements for sending Lord Glenconner to start preliminary discussions at the end of October. On 15th November, Professor Koht complained to Sir G. Ogilvie Forbes that the British Government was treating Norway not as an equal but as an inferior, and that with the exception of the case of the *City of Flint*, even Germany had not acted like this. Norway was, he said, not going to be bullied, and although instructions were being sent to Colban authorizing the signature of the shipping agreement, the Norwegian Government did not intend to implement it in full until the war-trade agreement had been signed.

The Foreign Minister's agitation was mainly due to the fact that he was about to begin negotiations for a war-trade agreement with Germany, and was extremely anxious to know where he stood with Great Britain before doing so. Yet recent Norwegian policy had hardly provided the British with much incentive to adopt an accommodating policy. In the shipping negotiations the Norwegians had not only made heavy demands in respect of cash and other conditions, but had at the same time chartered some of their ships to Italy without even inquiring as to the purpose to which they would be put. The Government had refused British reporting officers access to ports, so that they could not obtain information as to movements of ships and cargoes; it had protested strongly against Norwegian importers having to sign forms of ultimate destination, and against giving a guarantee that British coal would not be used in trade with Germany; it had refused to issue export licences for the export of aluminium to the Allies in excess of their peace-time purchases, although both the raw materials and the aluminium factories were controlled by the Allies, and it had cut down by fifty per cent. export licences for the export of ferro-alloys to the United Kingdom, although here also the materials were seaborne. The British had had no warning that Nor-

wegian negotiations with the Germans were about to begin in Oslo, and suspected that it was intended to bring a British delegation there at the same time in order that one could be played off against the other. But the unwisdom of leaving the Germans a clear field was obvious, and it was therefore decided on 15th November that Lord Glenconner should, after all, go to Oslo in order to explain British policy, and if possible strengthen the Norwegians in opposing the Germans. The British Government still insisted that the negotiations for the agreement must take place in London. The discussions with the German delegation began on 17th November, but Professor Koht was relieved to find that they were merely of an 'exploratory' character. The Germans left on 21st November, promising to return for more definite discussions in three weeks. By this stage Lord Glenconner had already started his discussions.

Lord Glenconner's talks in Oslo certainly revealed many points of difference between the two governments, but the Norwegian Government, although it was left in no doubt as to the British terms, did not treat the difficulties as insoluble, and agreed that a delegation should be sent to London for full negotiations.

The Norwegian delegation, headed by M. Prebensen, arrived in London on 8th December, and the first conversations took place on 11th December. Provisional agreement was reached on a number of points within the first week, and by the end of the month the framework of the draft agreement had been prepared. In general Norway was to prohibit the export of a long list of key commodities (annex A) and derivatives therefrom, whether in a manufactured state or otherwise, with the exception of machinery, motors, and carriages, etc., which might contain up to 12½ per cent. in value of prohibited commodities. She was, on the other hand, to be allowed to export without restriction certain commodities (annex B), including items such as furs, ice, stone, etc., which were produced wholly in Norway. She was to undertake to limit the export of other goods and commodities, with the exception of those for which special provision was to be made, to the peace-time level to all destinations, although the British Government was to raise no objection to the granting of export licences up to any quantity by the Norwegian Government for export to neutral countries, provided a satisfactory guarantee against re-export had been given by the neutral. In nearly every case the United Kingdom received in peace-time substantially more of these goods than did Germany. Norway thus abandoned her claim to be allowed to maintain all her normal exports to Germany, including those reaching her through the British contraband control.

A special arrangement with regard to the products of the Norwegian electro-chemical and electro-metallurgical industries was proposed to the Norwegian delegation on 14th December, and

accepted with a few modifications. The commodities concerned were: ferro-silicon, ferro-manganese, ferro-chrome, ferro-zirconium, ferro-columbium (niobium), calcium manganese silicon, silicon manganese, aluminium, electrolytic zinc, calcium carbide, nickel, nitrates, and nitrogenous products. The raw materials used were largely supplied or controlled by the Allies, and they held much of the capital of the companies concerned. The Allies wished to increase their purchases of these commodities much above pre-war level, and it was agreed therefore that the Norwegian Government should be allowed to grant export licences in these cases up to any quantity and to any destination. Sales to Germany would, however, be restricted, or prevented altogether, by the fact that any member of the industry applying for an export licence could be cut off by the Allies from supplies of raw materials. The Allied Governments were normally to supply to each manufacturer in any quarter-year only so much raw material as had been used by him in the preceding quarter in manufacturing the commodities in question for export to Allied countries or to countries mutually agreed between the Allied and Norwegian Governments. If the Allies chose to provide additional quantities of raw materials the Norwegian manufacturer could export corresponding quantities of finished products, but only to Allied countries or to satisfactory neutral destinations. The execution of these arrangements was to be supervised by a standing commission in London and Oslo, for which provision was made in the general agreement. Pending the completion of the general agreement, however, a private arrangement was made in December between the Norwegian representatives of the trade concerned and the Ministry of Supply, whereby the provisions were to come into force immediately.

A somewhat similar arrangement was made with regard to timber, wood-pulp, and paper. In peace-time ninety-eight per cent. of these commodities was exported to Allied countries and to the U.S.A., as Germany was not deficient in any of them. Timber was an article of purely Norwegian origin, and the manufacture of paper and pulp did not depend to any great extent on materials supplied or controlled by the Allies. If these goods had gone into annex A and been treated on a basis of 'normal trade' the Allies would have known that Germany would receive no more than her previous small quantity of supplies. They were, however, placed in annex B as the Allies might wish to secure increased supplies and this meant that Norway could technically grant export licences for these products up to any quantity and for any destination. An arrangement with the industry provided, however, that exports to Germany were to be limited to the peace-time figure.

The chief difficulties at this stage arose over the Norwegian supplies to Germany of whale oil, fish and fish products, copper pyrites, and

iron ore. The Ministry at first demanded that all Norwegian exports of these commodities to Germany should be prohibited. At a meeting on 16th December the Norwegians held out some hopes that they would be prepared to stop the export of whale oil, but no compromise seemed possible on the question of fish and fish meal, and at a meeting with Mr. Cross on 19th December the Norwegian minister, after admitting that the negotiations had hitherto 'in the main followed Norway's demand for strict neutrality', insisted that agreement by Norway not to export a wholly Norwegian product to Germany would be a breach of neutrality, and 'this raised an entirely fresh situation'. This hint that the British demands, if persisted in, would lead to a breakdown in the negotiations was supported by M. Prebensen, who argued that no Norwegian Government could drastically cut down the export of fish from Norway without grave political repercussions, as the Norwegian fishermen were extremely powerful politically; he sincerely believed also that if the Norwegian Government were to refuse to export these commodities to Germany, the Germans might retaliate by bombing the industrial towns of south Norway. German reprisals would in any case be very severe. In the course of the discussion Mr. Cross suggested that if it were a matter of internal economy this could be covered by additional purchases of fish and fish products by Great Britain. Obviously, however, fear of Germany was the predominant consideration with the Norwegians, and M. Prebensen once more insisted that he could not agree to anything which omitted the export of fish to Germany up to the peace-time level. The meeting ended with an agreement to postpone the fish question for a day or two for reconsideration.

The Norwegian attitude made it more than probable that by insisting on their extreme demands the British would bring about a breakdown in the negotiations. This would no doubt have been followed by a crisis in Norwegian political circles, and perhaps by the denunciation of the shipping agreement. Ultimately Norway could probably have been forced to capitulate, as she was dependent on the use by the Allies of her ships, fish, timber, paper, pulp, and metallurgical products in order to avoid economic ruin. But this result was by no means certain, for political factors—above all fear of German reprisals—had always to be considered; after a breakdown the British Government might have secured no more than it could have had before; the much-prized shipping agreement, the execution of which was still being delayed by the Norwegians for bargaining purposes, could certainly not be dispensed with, and might only be renewed on more onerous terms. Moreover, a stoppage, even temporary, in the supply of Norwegian ore would be very undesirable, and a breakdown would be certain to affect adversely the negotiations on the Narvik and Finnish questions. It was therefore agreed that concessions

should be made to Norway on the fish and whale-oil questions, but only on condition that the British demands were satisfied on all other points.

Whale oil did not cause much difficulty. At Oslo, in November, the Germans had suggested to Prebensen that he should propose to the British Government that, providing the British would allow Norway to pass on to Germany a substantial proportion of the whale oil carried by English and Norwegian whalers from the Antarctic whaling grounds, Germany would undertake not to interfere with either the Norwegian or the British vessels. This proposal had been repeated by the Germans when Prebensen passed through Berlin on his way to London, although they had tried to convince him that they did not attach great importance to it, and that they could obtain sufficient supplies via Vladivostok and Siberia. It seemed much more probable that Germany did need the oil badly. Prebensen told the British that Norway imported normally about 150,000 tons of whale oil, of which 110,000 were usually sold to Germany, and would certainly wish to continue selling some to her. This year British purchasers had offered 10s. a ton more than the Germans, who, thinking the British were bluffing, had ended by securing nothing. As the Allies controlled the supply of this commodity they were not likely to pay any attention to the German proposal. The British agreed that Norway should be allowed to import 25,000 tons in 1940 for her own use and 25,000 for re-export to Sweden, Finland, and Iceland, and that she should export 1,500 tons a month of fish or whale oil to Germany. Negotiations were commenced for the sale of the balance of the whale oil to the United Kingdom. It was also proposed that Norway should be allowed to continue the export to Germany of 62,000 tons of fish and fish products, and that Great Britain should buy, subject to price, 24,000 tons of fish meal and 25,000 tons of fresh herrings in 1940, in addition to her normal peace-time requirements. Norway, however, continued to insist on the maintenance of her normal peace-time exports to Germany, which were estimated at approximately 150,000 tons of fish, and 50,000 tons of fish meal. Early in January 1940 the British decided that the cost of pre-empting fish exports would not be justified, and that it would be better to give way ultimately on this point in return for concessions elsewhere.

No solution of the deadlock on the essential problem of mining was, however, found at this stage. Norway had exported annually before the war up to a million tons of iron ore and approximately 200,000 tons of copper pyrites, 1,000 tons of nickel, and 800 tons of molybdenum concentrates. These were all products of purely Norwegian origin, and in the case of iron ore and pyrites the mines had long-term contracts with Germany. Nevertheless when the Norwegian delegates left for Oslo on 17th January they took with them

a draft of the agreement covering all points except iron ore and pyrites, and it was believed that Lord Glenconner, who arrived in Oslo on 25th January, would be able to bring the negotiations to an early and satisfactory conclusion. He was, in fact, able by the end of the month to secure some concessions from the Norwegians with regard to copper pyrites and iron ore, and although these were small, he felt that the draft agreement including these terms should be initialled at once, in order to strengthen the Norwegian Government's hand in the negotiations which were due to commence with the Germans on 1st February. In London, however, it was felt that the terms were not sufficiently satisfactory to justify initialling, and Mr. Charles Hambro reached Oslo on 11th February with further instructions. The decision not to be hurried into acceptance was influenced by Norway's attitude to the shipping agreement. The Norwegian delegates admitted on 27th January that they had been responsible for withholding ships during the past two months. Lord Glenconner replied that even if they were within their rights in doing this they were most unwise to attempt to bring such pressure to bear, and that he would return immediately to London unless it were withdrawn. This they promised to do.

There were several British objections to the initialling of Glenconner's draft. (1) The Norwegian Government still urged that it did not dare assume the responsibility of prohibiting or limiting the export of copper pyrites or iron ore; Prebensen had done his best to persuade the firms concerned to reduce their exports, but the results were limited. This was a small return for the British agreement that fish exports should be on a peace-time basis. (2) The Norwegian Government wished to increase substantially the stocks, particularly of cereals, held in Norway, and for this purpose would have to use some of the tramp steamers promised in London to the British. Glenconner suggested that extra tankers should be provided in compensation. The Ministry of Shipping did not like this suggestion; it doubted whether more tankers could be provided, and believed that a definite undertaking should be secured from the Norwegian Government that the shipping agreement would be carried out. (3) The Treasury was interested in the draft payments agreement which had been in the possession of the Norges Bank for some time, and which formed an essential part of the war-trade agreement. Nothing had been heard of this recently. (4) The French Government had raised objections to the draft, and these would have to be taken into consideration. Hambro did succeed in extracting some concessions from the Norwegians, and, like Glenconner, was convinced by his personal contacts in Oslo that a prompt initialling of the agreement would strengthen Koht's hand against the Germans. German delegates, who had gone to Berlin for consultation, were due

back in Oslo on 18th February, and Hambro was informed on the 16th of the British Government's approval in principle of the agreement. The agreement was initialled on 21st February, subject to the final revision of the list in London, the conclusion of a satisfactory payments agreement, and certain provisions connected with the shipping agreement. Hambro had been unable to secure any substantial reduction in the export of iron and copper ores, and the Norwegian Government was anxious to build up stocks amounting in all to some 400,000 tons above their normal annual requirements. It was, on the other hand, prepared to prohibit the export of heavy hides. Otherwise it was chiefly concerned with certain new problems connected with fish supplies to Germany. It wished to place fish meal on a 'normal trade' basis, but was still prepared to limit the export of fish oils to Germany to about sixty per cent. of the normal; it also wished to export to Germany 50,000 tons of fresh fish above the 1938 quantity, as the Germans had refused otherwise to deliver forty anti-aircraft guns with 160,000 rounds of ammunition which they had promised to supply. In return for a concession on this point it was prepared to offer ten extra tankers for the use of the British Government. In addition, it hoped to arrange a similar barter transaction whereby it would exchange 13,800 tons of hardened fat with Germany for a further forty guns and 160,000 shells, and was prepared to offer a further ten tankers to the British Government for its agreement. This transaction the British reserved for further consideration as it was proposed that it should be outside the war-trade agreement. Otherwise the Norwegian points were accepted, subject to the provision of 3,000 tons of fresh herrings for France.

The agreement was finally signed in London on 11th March 1940. By this stage the Treasury was satisfied with the terms of the payments agreement and the necessary assurances had been given by the Norwegian Government and Shipowners' Association with regard to the execution of the shipping agreement.

The agreement followed very closely the form, and to a considerable extent the provisions, of the Anglo-Swedish agreement of the previous December. The main documents were as before a protocol, declarations by each of the governments concerned, and the constitution of, and instructions to, the joint standing commission. Norway was to prohibit the export of commodities in annex A, which she derived from across seas other than the Baltic, except to Denmark, Finland, Iceland, and Sweden, and except in cases where the commodities formed less than 12½ per cent. by value of goods manufactured in Norway. She reserved the right, on the other hand, to grant licences to any destination and up to any quantities, in respect of commodities in annex B; but apart from a limited list of unimportant domestic products, annex B consisted principally of ferro-alloys,

nickel, zinc, and aluminium, and these were manufactured chiefly from raw materials supplied by the Allies, who had undertaken to supply Norwegian manufacturers only with such quantities of raw materials as would be used to maintain supplies to the Allies of the finished products. Commodities not dealt with in annexes A and B or in the instructions to the standing commission were, in general, to be limited to the quantities exported to each country concerned in the corresponding quarter of 1938, that is, they were to be dealt with on the basis of 'normal trade'. This provision covered exports of fish and fish products, iron ore, and copper pyrites. The British authorities would discontinue their demands for guarantees against re-export from Norwegian importers. The main difference between the Swedish and Norwegian agreements was in the rationing of imports of various commodities, which were listed in annex C. In the annex the maximum tonnage of stocks of these commodities was given, and the Norwegian Government was to limit its imports to the amounts needed to build up stocks to these figures and for 'actual consumption' in Norway, together with such quantities as were needed for re-export to Denmark, Finland, Iceland, and Sweden. It was one of the main duties of the commission to collect quarterly figures of the import, release from stocks, or re-export of these goods. The instructions to the commission also set out various exceptions to the provisions concerning annexes A and B.

The Germans invaded Norway only a month after the signing of the agreement, and it is, therefore, difficult to say how far it would have satisfied British requirements if Norway's neutrality had been maintained. The execution of the provisions would have depended on the strength and good faith of the Norwegian Government, and the protraction of the negotiations had been largely due to the fact that the Norwegian authorities seemed very much less willing than the Swedish to resist the efforts of the Germans to secure commodities, or of Norwegian business and shipping interests to secure high profits. For this reason the rationing of imports could be regarded as the most merciful way of treating the question of stocks. The problem of the transit trade through Narvik, which will be discussed in a later section, supplied perhaps the best example of the embarrassments and timidities of the Norwegian Government.

(iv)

Denmark

The war-trade agreement with Denmark was perhaps the most difficult to negotiate of the Anglo-Scandinavian agreements. This was no doubt due primarily to Denmark's complete vulnerability to

German attack, although other reasons were by no means absent.¹ The agreement was not formally signed until 2nd April, a week before the German invasion.

Denmark exported before the war seventy-five to eighty per cent. of her production of bacon, butter, and eggs. Of these exports the Allies (mainly the United Kingdom) afforded a market for ninety-nine per cent. of the bacon and ham, seventy-five per cent. of the butter, and sixty-seven per cent. of the eggs. The Allies (again mainly the United Kingdom) provided Denmark in return with seventy-six per cent. of her coal needs, eighty-eight per cent. of the oilseeds needed for feeding-stuffs (entrepôt trade, mainly from West Africa and the Far East), sixty to sixty-five per cent. of textile manufactures and seventy-six per cent. of her supplies of mineral oils. Germany took a much smaller percentage of Denmark's exports of dairy produce, and supplied her with fifty-nine per cent. of her imports of iron and steel manufactures, forty-four per cent. of her non-ferrous metals and manufactures, thirty-three per cent. of her fertilizers, and thirty-one per cent. of textile manufactures. Germany's total imports from Denmark amounted to eighteen to twenty-one per cent. by value of Danish exports (compared with Allied imports of fifty-four to sixty per cent.) and her exports to Denmark of twenty-five per cent. by value (compared with Allied supplies of forty per cent.).

Since the Allies controlled the trade routes by which sea-borne supplies reached Denmark, and Danish agricultural production largely depended on imports of oilseeds for feeding-stuffs, the Allies appeared to be in a strong position to bring pressure to bear on Denmark. The fact that the United Kingdom also supplied seventy-six per cent. of Danish coal and coke imports (against Germany's nineteen per cent.) and the same amount of mineral oils, was an additional bargaining weapon, but a less effective one in time of war, when the United Kingdom might be unable to maintain her exports to neutral countries of these important supplies. Britain's most important card was perhaps the fact that, as the balance of trade was decidedly in favour of Denmark, there was a very substantial sterling balance which Britain could block. In the past the Danes had used these balances to make their dollar purchases abroad of essential commodities such as feeding-stuffs and petroleum. The Allied position was, however, weakened by its dependence on Danish agri-

¹ In addition to information in the M.E.W. files, I have used some notes on the negotiations kindly supplied to me by Mr. John Buckley, who was in personal contact with the Danish negotiators during and after the conclusion of the agreement. He found himself in Denmark a few hours before the Germans arrived, and had to remain in the country for nearly two years. He remarks of the Danish delegates that 'their almost matchless negotiating skill, which they had hitherto arrayed against myself, was for many months utilized in parrying persistent German demands for my incarceration in Germany'.

cultural produce, and the complete inability of both the Allies and Denmark to prevent a German invasion of Denmark, or the sinking by German submarines of most of the ships leaving Denmark.

On 9th September a decree was issued in Denmark prohibiting certain exports except under licence. Meanwhile the usual draft text of a provisional war-trade agreement had been presented to the Danish Government. It replied on 11th September in a lengthy *note verbale*, signifying its willingness to conclude a temporary agreement by an exchange of notes, but making the following points: Denmark wished to maintain trade with both countries on the basis of existing trade agreements; quotas of import and export trade with Germany for 1939 were governed by the annual trade agreement and were in fact somewhat greater than for 1937 and 1938; export quotas to Bohemia and Moravia, based on the *status quo ante*, were also in force; the Danish Government hoped that the British Government would agree in principle to the idea of permitting exports and re-exports to other Scandinavian countries; the Danish Government would undertake not to increase exports beyond the 1939 quotas, nor to develop transit trade, which had virtually ceased in recent years. This note showed that Denmark was not prepared to accept the draft provisional agreement in its original form; discussions on the point continued into October, and it was suspected that the delay was being exploited by the Danes and Germans to increase as much as possible their 1939 figures, which they wished to take as the basis of their 'normal trade'.

From an early stage in the negotiations the close dependence of the Danes on German approval was marked. The fact that the German Government was aware of the negotiations was more or less admitted by Dr. Mohr, the Danish Under-Secretary for Foreign Affairs, in a conversation with Sir Frederick Leith-Ross on 14th February 1940. Dr. Mohr's account may be summarized as follows. When von Hassell visited Copenhagen early in September the Danes were surprised to learn that Germany agreed to the normal ratio of exports of Danish produce of thirty to Germany and seventy to Great Britain. In spite of this, however, the Germans soon began to seize Danish food ships bound for England and to open fresh negotiations. The Germans argued that in agreeing to 'normal' trade they had assumed that foodstuffs would not be considered as contraband; they now found that Britain was making no distinction in practice between conditional and unconditional contraband. They also asserted that Great Britain was planning to gain complete control of all Danish imports and exports. Dr. Mohr had then asked a representative of the German Food Ministry whether Germany attached such importance to Danish food supplies that she was prepared to ruin Denmark by stopping her trade with England. The German representative stated

that Germany had the food situation well in hand, although she was very short of petroleum, iron, nickel, and other non-ferrous metals.

Dr. Mohr went on to say that the German minister, Rentefinck, after visiting Berlin, had returned with the announcement that exports to England would be stopped unless Denmark agreed to the ratio of fifty-fifty, as in the First World War. The Danish Government had protested and threatened to publish an account of the September discussions. Rentefinck, after another visit to Berlin, reported that Germany would not interfere with the Danish food ships so long as the existing arrangements between Denmark and England for normal trade were not substantially altered. Dr. Mohr had then asked if this assurance could be relied on, providing the 1940 agreement was not materially different from the existing one. The German minister had admitted that the new agreement might give rise to awkward questions, but that he thought there would not be any alteration in policy. To further questions from Dr. Mohr the German minister replied that Germany would not conclude an agreement with Denmark for 1940 without a denunciation clause, nor could she promise to give three weeks' notice of its termination. It might be possible to give two weeks' notice, but if Great Britain stopped Danish imports, the German Navy would retaliate without notice.

Dr. Mohr's account no doubt gave a somewhat expurgated version of the German-Danish discussions, and it was also completely without dates. Nevertheless it is of some use as an indication of the main stages in German policy, which was not always easy to understand. Thus a telegram from Copenhagen on 26th September contained a report from a 'reliable informant' that the Germans were less interested in maintaining normal trade than in sinking ships bound for the United Kingdom and in reaching an undertaking with the Oslo powers regarding transit trade, to facilitate which they were building up credits in Holland and Belgium. It now seems clear, however, that Germany was prepared in the first months of the war to accept some sort of reciprocal arrangement whereby Danish exports to both Germany and Britain could continue; the fluctuations in German policy were due in part to uncertainty as to how much could be squeezed out of Denmark, in part to the advisability of keeping the Danes up to the scratch by occasional displays of heavy-handedness.

On 28th September Denmark made proposals to London for a *modus vivendi*, which she was apparently anxious to sign immediately. Under this arrangement the Danish Government was to agree to maintain the existing control of the exports of certain commodities and to supply Great Britain with monthly statistics of all exports and re-exports to European countries. She would also declare that exports to Germany would be kept 'within the framework of normal trade' as established by the Danish-German agreement for 1939. The British

Government was to agree to put no obstacle in the way of this plan, and was to use its best endeavour to facilitate the import into Denmark of goods required 'to maintain her normal economic life'. The Danes apparently thought that such an agreement would convince Germany of their intention to continue normal trade with her, which Germany seemed to doubt. Britain had no intention of giving these sweeping assurances, but she was prepared to allow the arrangement to operate and merely to 'note' Denmark's intention. Food ships had meanwhile been seized and taken to a German port, and Danish shipowners refused to allow further ships to sail.

Discussions continued for some days between London and Copenhagen for the exchange of notes embodying the Danish proposals, but on 13th October the Danish minister in London was able to announce that the Germans had agreed privately and verbally not to interfere with normal Danish food shipments to Great Britain so long as Denmark continued normal exports to Germany. The ships sailing to England were to be marked with a Maltese cross. The Germans would not sign any document and made it an express condition that no mention of the continued passage of food ships should be made in the press, as they did not wish their own people to know that food was going to England. The British Government therefore gave a verbal assurance to the Danish minister that, pending negotiation of a war-trade agreement, Great Britain would place no obstacle in the way of normal Danish-German trade, so long as the German undertaking was implemented; it was felt, however, that the British Government could not give a written undertaking to maintain normal trade if Germany refused to sign anything.

The Danes then asked for the expediting of the contraband-control procedure and the abolition of statutory declarations in order to facilitate the import into Denmark of essential raw materials, as Germany argued that these obstacles hindered Denmark's export trade with Germany. The British refusal to do this, and the arrival in Copenhagen of two considerable scrap-iron cargoes, which had eluded the contraband control and of which one at least was being transhipped to Germany, postponed still further the commencement of formal negotiations for the agreement. According to reports from Copenhagen the scrap-iron cargoes were the German price for certain preferential duties.

During this deadlock, discussions had been proceeding in London, during the first week in October, between the Ministry of Food and a Danish delegation representing the butter, bacon, and egg trades. The discussions were friendly and mostly concerned the Danish request for an increase in prices. Members of the Danish fuel committee also met representatives of the Mines Department in London to discuss Danish imports of British coal.

A telegram from Copenhagen of 27th October announced the satisfactory solution of the scrap-iron incident, and the British, on 28th October, accepted the Danish offer to send a representative to London to open negotiations for a war-trade agreement and explain the working of the Danish-German commercial agreement. On his arrival M. Wassard, the Danish representative, submitted details of Danish exports to Germany under the Danish-German trade agreement. He was asked to explain the persistent rumours in Denmark that the agreement contained a secret clause granting Germany large credits, including a considerable sterling payment. (It had even been rumoured that, in return, Germany would withdraw any demand for a frontier adjustment in Jutland.) He explained that the balance of Danish-German trade was considerably in favour of Germany, who thus accumulated a credit balance of about £1,000,000 a year, which, being free, could be transferred to other countries. The explanation was accepted, although the British representative in Copenhagen had reason to believe that the rumoured secret payment was 'entirely separate'.

The British then stated that they would seek an agreement with Denmark on the lines of the Swedish agreement, except that the Danish import of feeding-stuffs and export of food products would be dealt with on a different basis. It was suggested that the feeding-stuffs might be purchased in bulk and Denmark's purchases financed through the United Kingdom. M. Wassard 'did not dissent from this and mentioned that Denmark was extremely short of foreign exchange'. He then requested that negotiations should be kept as informal as possible and the delegation as small as possible. He also asked for a statement of the British proposals which he could communicate to his government, and received these on 6th November. The proposals demanded a Danish guarantee against re-export of certain Danish imports (except, under safeguards, to other Scandinavian countries) and the restriction of other exports to belligerents to the level of normal trade; suggested co-operative purchase of feeding-stuffs, the fixing of the volume of proposed Danish imports to expedite contraband control, the possible use by the Allies of surplus Danish tonnage, and the setting up of a mixed commission to supervise the agreed trading arrangements.

At a further meeting on 8th November the Danes pointed out that the British proposals had omitted two points, namely, (1) the abolition of statutory declarations and the acceptance instead by Great Britain of a general guarantee by Denmark against re-export, and (2) 'the acceptance of Danish-German trade as specified in the 1939 programme'. The British pointed out that (2) 'cut right across the fundamental principle of British contraband control' but asked M. Wassard to put his points in writing. The Danish representative left on 12th November to confer with his government.

Interdepartmental discussions meanwhile took place on the British side on various problems connected with the war-trade agreement. Anglo-Danish trade showed in 1938 a balance of £20,000,000 in favour of Denmark, while Danish-German trade was in favour of Germany, to the extent of £3,500,000 paid in free exchange. Trade between Great Britain and Denmark had been regulated since 1933 by a commercial agreement, under which tariff schedules were fixed on both sides, Great Britain guaranteed to purchase from Denmark certain quotas of her agricultural produce, Denmark guaranteed to purchase eighty per cent. of her coal requirements in the United Kingdom, and certain other purchase agreements (salt, etc.) were made. This rather unsatisfactory agreement, giving Denmark complete control over her imports of British goods, was supplemented in 1936 by a more favourable agreement and an exchange of confidential letters, providing *inter alia* for adequate allocation by Denmark of licences for imports from Great Britain. The amount of these licences was increased by Denmark in 1938 to maintain the ratio of English and German exports to Denmark (as the export of German manufactured goods had increased), and again in 1939, owing to the increase in the British adverse trade balance. In spite of this it was expected that the trade balance for 1939 would exceed the 1938 figure in Denmark's favour, as Great Britain had maintained her level of imports from Denmark but had been unable to fulfil certain export contracts. The position would deteriorate still more in 1940.

This meant indirectly that Great Britain was facilitating the export of foodstuffs to Germany. There seemed no immediate prospect of reducing the unfavourable trade balance by a reduction in British imports from Denmark. The Ministry of Food insisted that for at least six months Great Britain would need to maintain her Danish imports, which amounted to nearly £40 millions per year. In addition, the Danes were pressing for an increase in prices.

The British continued to receive evidence as to Denmark's payments to Germany, and although the reports were conflicting there could be no doubt as to their general implication. M. Waerum, of the Danish Ministry for Foreign Affairs, stated that the Danish-German agreement entailed no cash payment; M. Wassard gave the figure as £1 million per annum; the British commercial secretary at Copenhagen estimated it to be at least £3½ millions in 1938-39; a further report maintained that the Danish shipping line D.F.D.S. had given a sterling bond of £500,000 to Germany, who had agreed not to interfere with food shipments to England; a 'reliable informant' in Copenhagen asserted that an annual cash credit of Kr. 300 millions (approximately £15 millions) had been granted by Denmark to Germany. The main object, therefore, on the British side, although this was not emphasized at the first meeting, was to negotiate a pay-

ments agreement with Denmark, under which her sterling balance would be blocked, and payments from it controlled, at least until the United Kingdom could substantially reduce the annual balance by reducing British imports of Danish produce.

Meanwhile the Danish Government had abandoned the idea of confining the discussions to informal talks with a small delegation and sent a rather large official delegation to London headed by Prince Axel. Discussions began on 24th November.

After expressing the hope that Denmark could continue normal trade with all belligerent powers, the delegation laid emphasis on the fact that the maintenance of Danish exports depended on adequate supplies from overseas of feeding-stuffs and fertilizers, and that the rise in price of Danish imports was not being offset by a corresponding increase in the price of her exports, but was creating a balance of trade unfavourable to Denmark. In meetings of the various sub-committees the chief points raised by the Danes were (1) the A list, which they considered unnecessary and which they insisted should not in any case include derivatives; (2) the increased cost of production of Danish foodstuffs; (3) the possibility of increased import by Denmark of petroleum products, owing to greater storage capacity; (4) Denmark's shortage of foreign exchange.

A memorandum and 'Heads of Agreement', embodying proposals for a clearing agreement, were informally discussed with a few delegates on 7th December. They were attracted to the idea of a co-operative purchasing scheme for feeding-stuffs, and accepted in principle, although reluctantly, the proposal for a payments agreement. They agreed more readily to the setting up of a joint commission, but, to avoid publicity, suggested adopting the already existing trade committee. The head of the Danish National Bank, who had meanwhile joined the delegates as the financial expert, also accepted in principle the proposals for a payments agreement.

It seemed therefore that the Danes 'were slowly coming round to the proposals', although they had not yet been 'very helpful as regards putting any surplus tonnage at our disposal', and still refused to include derivatives in the A list. On 13th December a letter was addressed to Dr. Mohr summing up the results of the negotiations, and proposing that the agreement should take the form of a short protocol in general terms, and two unilateral declarations of a confidential nature, the main provisions of which were indicated, although not in the form of a final draft. This letter was discussed at a meeting on 14th December with three of the delegates, who accepted the proposals in principle, but suggested they might themselves submit a redraft.

Every effort was made to induce the Danes to sign the payments agreement before their departure to Denmark for Christmas. On 18th December the Danish butter representatives were offered

130s. 8d. per cwt. f.o.b. for butter, the price to be increased by 2s. from the date when a payments agreement was signed. They were also informed that from an early date in January (subsequently fixed as 8th January) ordinary payments would cease and would be paid into a special account which would be controlled as proposed in the payments agreement. A similar offer was made for bacon, except that the 2s. extra per cwt. would not come into operation unless the payments agreement was signed by 18th January. A second draft of the agreement was therefore submitted to the Danes on 19th December; they 'showed great reluctance to come to the point at all'. M. Waerum stated that Dr. Bramsnaes, the financial expert, had 'found the proposed terms quite unacceptable economically'. When told that Dr. Bramsnaes had raised no objections to the first draft M. Waerum, evidently embarrassed, expressed the desire to break off all negotiations if the British insisted on a payments agreement in the form proposed. The British proposals for increases in the prices of bacon and butter were mentioned, and Dr. Mohr stated that those discussions had been 'a great shock to the Danish delegation'. The proposals for conditional increase of payments produced, however, one desired effect, in that the delegates agreed to return early in January, instead of the end of that month.

The delegation left on 20th December. The British then decided, as a further 'incentive', to hold up shipments of feeding-stuffs and oil-seeds to Denmark. The possibility of reducing Danish exports to Germany by controlling the Danish import of feeding-stuffs (which was being purchased out of the proceeds of her sales of food to the United Kingdom) had been seriously considered by the British from the outset. The chief difficulty lay in estimating the effect. When the Danish authorities were informed that the United Kingdom proposed to allow the purchase only of sufficient feeding-stuffs and fertilizers for Danish home consumption and supplies to Britain, they insisted that Denmark could, from her own resources, produce enough food for her own needs and her exports to Germany. However this might be it seemed probable that, even with reduced output, Denmark would, out of fear, continue exporting to Germany, by reducing exports *pro rata* to both her and the United Kingdom. The British plan, therefore, for co-operative purchase of fodder and fertilizers, while not watertight, would, combined with the payments agreement, effect some measure of control until Britain could dispense either partially or entirely with Danish supplies.

The delegates, on arriving in Denmark, complained that they had not had 'a square deal', that their task was made more difficult by having to negotiate with several British departments at once, that they were presented 'on the eve of their departure with a payments agreement which went beyond anything they had accepted or could

accept in principle' and that they had understood the increase in price of bacon and butter to be unconditional. This sudden stiffening may be partly explained by boldness in saying from a distance what they did not like to say in London, but was undoubtedly more than partly due to German pressure. Germany had apparently got wind of the trend of the negotiations and sent a warning to Denmark. Later reports from Copenhagen suggested that Germany was still receiving considerable information from Danish sources as to the progress of the London discussions.

The delegates returned to London on 2nd January. The meetings resumed rather stormily and for some weeks the Danes were as stubborn as ever. They secured fourteen days' postponement of the date from which sterling payments for bacon and butter would be blocked, against certain guarantees on their part. Reports meanwhile came to hand of the unwarranted increase of imports by Denmark of certain commodities, including well-known deficiencies, such as petroleum, lead, resin, lubricating oil, and cotton waste. The Danish explanation was not entirely satisfactory, and leakage to Germany was suspected.

The urgency of settling the terms of the payments agreement was with difficulty impressed on the Danes. The second British draft, which they found unacceptable, provided (1) that all debts due from Great Britain for goods purchased from Denmark should be paid in sterling into a special account; (2) the National Bank of Denmark should not dispose of existing sterling balances (including the sale of existing gold or securities) except by payment into the special account; (3) the credit balance in the special account should only be used for (a) payments by persons resident in Denmark for goods from the sterling area, interest, dividend, and amortization payments, freight and insurance charges, the servicing of the Danish debt; (b) payments for feeding-stuffs by agreement with the United Kingdom; (c) payments by persons resident in Denmark to the French Empire and Brazil in respect of transactions of the kind described under (a). Further provisions demanded a weekly schedule from the Danish National Bank of all payments made, and allowed the purchase by Denmark of United Kingdom government securities, when the credit balance in the special account exceeded £100,000.

On 9th January the Danes produced counter proposals, in the form of a protocol and two confidential declarations, with an annexed draft of a payments agreement. The latter differed substantially from the British draft: the Danes proposed that only bacon and butter payments should go into the special account. The Danish draft proposed that payments from the account should include shipping expenses, 'all payments for grain, feeding-stuffs, and oilseeds which Denmark must import in order to keep her normal agricultural

production', and *all* payments to persons resident in France and Brazil. The British draft had permitted any surplus to be disposed of by agreement, whereas the Danish proposal provided that it might be used for (1) 'all payments for the agreed quantities of key commodities which cannot be purchased in the sterling area or Brazil', (2) 'all interest, etc., payments on Danish public and municipal debt, and on loans to Danish concessionaire companies, contracted in other currency than sterling', and (3) Danish purchases from other countries.

On 12th January the British, who found many points in the Danish draft unacceptable, suggested substituting for the payments agreement an exchange of letters. The Danish letter would agree (as in the former British draft) that all payments to Denmark should be made into a special account and that only certified specified payments should be made from it. The letter left the question of any surplus 'to be discussed from time to time' and the demand for weekly schedules of payments was omitted. The letter, in effect, reiterated the former British demands in the guise of a more vaguely worded suggestion from Denmark herself. This was discussed on 12th January: the Danes objected that it merely postponed the question of the surplus account and 'did not provide for sterling to meet Denmark's dollar debt'. Their chief complaint was, however, as usual, that Germany's reaction to the blocking of the surplus would be to stop Danish food exports to Great Britain.

A week later, at a further meeting, the Danes, who complained that the course of the negotiations was leading the two countries further and further apart, proposed settling first of all the differences in the main war-trade agreement. A long discussion took place, and the British draft of the Danish declaration was criticized on the ground that (1) the Danish control of exports was not complete and covered only 'main' exports, including goods in list A; (2) the Danes wanted increased trade with Scandinavia and the maximum 'of recent years' with other countries; (3) they would not undertake to stop transit trade; (4) they wanted 'rationing' limited to goods passing through British control, and not limitation of all imports; and (5) they pronounced the instructions to the committee to be unacceptable.

Danish counter proposals were considered unsatisfactory, as the Danes persisted in their 'reluctance to depart from generalities'. Meanwhile the date for blocking sterling was again postponed for 14 days from 22nd January. In the Ministry the possibility was discussed of scrapping the idea of a formal agreement and substituting 'forcible rationing', which would need cabinet authority.

Interdepartmental discussions now took place to decide on the best way out of the deadlock. The Board of Trade was in favour of

letting the Germans have their existing food quota and the cash payment of £1 million per annum instead of attempting to deprive them of the cash at the risk of their getting greatly increased supplies for the next six months or longer, as they would if exports to Britain were stopped. The Ministries of Food and Economic Warfare, and the Treasury, were in favour of granting the Danes a ten per cent. concession in gold. The Foreign Office did not take a serious view of possible German interference with Danish exports to Britain: it argued that the ships could, as at the end of the last war, sail through Swedish and Norwegian territorial waters up to Bergen, whence they could cross to England with or without convoy. If Germany entered those waters to interfere with the ships, British warships could do likewise and so be in a position to prevent iron ore from Narvik reaching Germany. As to the risk of actual occupation of Denmark by Germany, the Foreign Office considered that Germany would do so, if she thought it profitable, at any time without pretext. It was ultimately decided to leave it to the Treasury to conduct the final negotiations as to payments, and to decide what concessions should be made to the Danes.

Towards the end of January there were signs that the Danes were adopting a more accommodating attitude, and during the first half of February there seemed little doubt that they were now anxious to get the agreements signed as soon as possible. The Danish Government was contemplating a general election, and perhaps wanted to know the terms before making a decision on this point. The main reason, however, seems to have been belief in the imminence of a German attack. M. Waerum still insisted that they 'would go home if we did not throw overboard our requirements for guarantees', but Dr. Mohr now seemed reconciled to the idea of written instructions to the joint committee (which they hoped could be attached to the legation) and offered to submit a draft. He was, however, reluctant to give an unconditional undertaking that exports to Germany would not be increased. The sinking of Danish ships by German submarines meanwhile caused great indignation in Denmark, and the farmers considered impeding exports to Germany, a threat which strengthened the British hand.

During the first fortnight of February a joint draft (no. 7) of a war-trade agreement was prepared by the Ministry of Economic Warfare and M. Wassard (who had taken M. Waerum's place). There were still—apart from the payments agreement—some problems to be settled, such as the extent to which Great Britain could relax the requirement for guarantees, the question of fuel-oil bunkering of belligerent ships, and outstanding commodities on the ration list (annex B). The figures for petroleum and feeding-stuffs were agreed. The British asked for additional licences for United Kingdom

exports in respect of about fifty sub-groups of the Danish import restriction list and in most cases secured their demands. The Danes were apprehensive about their coal imports and the reasons for the temporary shortage in Britain were explained to them.

At the beginning of March, just as agreement was being reached on all points, the Ministry of Food produced a bombshell in the shape of a proposal to cut Britain's imports of Danish bacon from 3,500 to 2,500 tons per week as from 4th March and of butter from 80,000 to 60,000 tons per annum, with a reduction in price for butter of 14s. per cwt. from mid-March. It was the time of the increased spring production, and was therefore a particularly unfortunate moment for a cut in butter imports. The Danish experts and delegates were very shocked at both the volume and suddenness of the cuts.

Nevertheless, the war-trade agreement was initialled on 12th March. It followed in the main the framework of the Swedish and Norwegian agreements except that the wording was a little 'unorthodox' (to suit the Danes), and many points were dealt with by an exchange of letters, in order to satisfy the Danes' desire for secrecy.

The printed documents consisted of a protocol, a Danish declaration with two annexes, a British declaration and four notes, eight letters, and a schedule. The Danish declaration provided that (1) Denmark did not intend to increase her normal export trade; (2) she would supply the United Kingdom Government with monthly statistics of imports and exports; (3) she would maintain her existing control of exports, particularly commodities in annexes A and B; (4) exports from Denmark of all commodities not specified in annex A would not exceed normal amounts except as specially agreed; (5) no export licences for commodities on the A list would be granted except for export to other Scandinavian countries; (6) import control would be maintained in accordance with the ration list B.

The United Kingdom declared that, subject to every reservation of its belligerent rights, it would (1) accept the average of the years 1937 and 1938 in estimating Danish normal trade, (2) facilitate the passage through the contraband control of commodities in annex A and relax their requirements of individual guarantees in respect of them, reserving, however, the right to demand individual guarantees in suspicious cases, and (3) facilitate the import of commodities in annex B. The four notes, in order, contained (1) Denmark's promise not to increase exports to Germany or German-occupied territory; (2) the British acknowledgement of note (1); (3) a promise by Denmark in respect of article 5 of their declaration that licences for export to other Scandinavian countries of annex A commodities would only be granted against satisfactory guarantees not to re-

export; (4) a denunciation clause if Anglo-Danish trade in essential commodities virtually ceased.

Of the eight semi-official letters, three concerned the functions of the committee, three settled the amount of the Danish imports of petroleum products (based on estimated consumption in 1940) and the conditions on which passage through the contraband control would be facilitated, and two agreed that the amounts of feeding-stuffs to be imported by Denmark should be decided by the committee. The final schedule named the countries to which Denmark might export non-annex A commodities in excess of normal.

The payments agreement came into force on 1st April. The terms may be summarized as follows: all payments for bacon, butter, eggs, and (if controlled) processed milk should be contracted in sterling and made into a special account of the National Bank of Denmark at the Bank of England. Freight in respect of Danish vessels chartered by the United Kingdom should be likewise paid into the Bank of England, fifty per cent. being credited to the Danish bank's ordinary account, twenty-five per cent. to the special account, and twenty-five per cent. to the 'National Bank of Denmark Special Account No. 2' the balance of which should be convertible into gold. Payments from the special account would be controlled and used only for (1) payments to persons within the sterling area for (i) feeding-stuffs and fertilizers, (ii) other goods produced in the sterling area, (iii) freight, insurance, etc., charges, and (iv) the purchase of Danish securities payable in sterling; (2) payments by agreement between the two governments for feeding-stuffs, etc., from outside the sterling area, for which the Bank of England would furnish foreign exchange. Conditions were laid down as to the payment of freight for (2) from the special account. Great Britain had thus substantially secured her original demands, her only considerable concession relating to freight earnings.

There was, in addition to the other agreements, a shipping agreement, and the final stage in the negotiations of this prevented signature before the beginning of April. Germany invaded Denmark on 9th April and so the war-trade agreement, after all the hard bargaining which went to its conclusion, had no chance of becoming operative. The stiff terms that the British were compelled to put forward were the result of the economic value and political vulnerability of Denmark in relation to Germany, and fear of Germany was no doubt the predominating influence on Danish government policy. However, the 'pressing financial needs' to which reference was made in many reports from the British minister in Copenhagen undoubtedly had an existence apart from German pressure, and in part explain the continued protests of the delegates, who hoped to 'wring some concession, however small, from the Ministry of Economic

Warfare'. Apparently M. Waerum stated before he left Copenhagen that 'he intended to be difficult and that the Danes would resist to the last'.¹

(v)

Iceland

The British Government would naturally have preferred the voluntary co-operation of Iceland in the blockade of Germany, and it is at first sight surprising that no war-trade agreement could be concluded. There seems no doubt as to the friendly disposition of the Icelanders towards the United Kingdom, and in any case the island's foreign trade was completely dependent on routes controlled by the British Navy. It relied, moreover, to a very great extent on British supplies and British capital. The British for their part knew that forcible vigilance by the British Navy over all Icelandic vessels and cargoes would make heavy demands on the contraband control, and much might elude the patrols, as in the last war. Iceland was also a source of valuable supplies, particularly fish. However, it became clear during the course of negotiations that the Icelandic Government feared that a voluntary agreement with the United Kingdom would be considered in Germany to compromise Iceland's neutrality, and that German reprisals might follow. Accordingly, although effective co-operation was achieved, it had to be kept on as informal a basis as possible. Arrangements on these lines were completed by the end of January 1940.

The early stages of the negotiations were complicated by an undoubted blunder on the British side. A draft war-trade agreement was presented to the Icelandic Government, but it had been devised for states whose geographical position enabled them to export goods to Germany without physical interference by the Allies. It therefore contained provision for 'normal trade', and it took the Icelanders some time, and gave them a considerable shock, to discover that the British intended to use their naval superiority to prevent Icelandic trade with Germany altogether. A provisional agreement was signed

¹ Mr. Buckley writes: '... the Danes had employed delaying tactics to gain time to "stock-up" Denmark as far as possible with overseas imports. You will observe that until we got the War-Trade Agreement really going, our control over Danish import trade was not fully effective. The huge stocks which undoubtedly did exist in Denmark after 9th April certainly show that the time spent in talking had not been wasted by them. . . . The Danes kept up the fight practically right to the end; but two or three weeks before the Agreement was initialled, suddenly crumpled, and their resistance became half-hearted. I could not understand this at the time, and my considered view now is that Dr. Munch, then Minister of Foreign Affairs, had by that time become convinced that the Germans were decided upon the invasion of Denmark [and he] decided that his best interest was to cut out the talk and get his delegation home, which included some of the ablest members of his Foreign Office.'

in Reykjavik on 3rd October 1939 allowing 'normal trade' on the basis of Iceland's average monthly exports to Germany in the corresponding months of 1936-38, but with a warning that this was but a temporary concession. When discussions for a full war-trade agreement began in London on 18th October the British Government made it clear that the normal trade concession was to remain in force for a fortnight only, unless renewed. Later there was a renewal until 25th November, but on the understanding that no further extension would be granted.

The discussions in London went on until the end of the year, with interruptions on both sides for consultation. The Icelandic delegates started by expressing the hope that the British would continue to permit Iceland to trade freely with the other Scandinavian countries and to maintain normal trade connections with Germany, and that, in fact, Iceland would not be treated differently from the other northern countries. The first of these requests was granted, subject to the usual guarantees. The refusal of the second raised the question, for the first time in the war, of surpluses. The cutting off of so much of Iceland's foreign trade would create a serious economic crisis in the island, and would place a serious strain on her political relations with the Allies, unless they were able to compensate her in some way. This was a problem which was to acquire vast proportions in Latin America after the fall of France, but it was still in the manageable stage in 1939, and considerable progress was made in meeting Iceland's immediate difficulties.

Iceland had hitherto drawn from Germany forty-five per cent. of her imports of iron and steel products, forty-seven per cent. of her paper and paper manufactures, and fifty-five per cent. of her chemical products. Italy provided fifty-one per cent. of her imports of textile fabrics. Germany and Italy were before the war slightly better customers of Iceland than France and England. Thus Germany took eighty per cent. of her sheep and lamb skins, eighty-four per cent. of her wool; twenty-four per cent. of fish meal (a rapidly increasing product) and fourteen per cent. of fish oils. Germany and Italy together took eighteen per cent. of her fish, but the chief market for Icelandic herrings was Norway.

The final British terms were set out on 29th December 1939 in a letter from the Ministry to M. Björnsson, the Icelandic minister to Denmark, who had conducted the negotiations in London. It asked the Icelandic Government 'to note' certain provisions of the contraband control, which would particularly affect Icelandic traders, and set forth the conditions on which Iceland could continue to conduct her foreign trade through the usual channels. An increase of trade with the other Scandinavian countries was agreed to, subject to specified safeguards against re-export. Special provisions allowed for

the re-export to Iceland, in certain circumstances, of goods from the Scandinavian countries not of Scandinavian origin. Subject again to safeguards against re-export, trade with Belgium, Holland, Switzerland, and Italy would also be permitted 'up to a normal figure', and under certain conditions the free interchange of goods between Iceland and the U.S.A., the south and central American republics, Portugal, Spain, and such other countries as should from time to time be determined by a joint standing committee. On these assumptions the British Government would be prepared to facilitate the passage of Icelandic vessels through the controls, to issue licences for the export to Iceland of commodities from the United Kingdom in agreed quantities, to grant to the National Bank of Iceland, through the Exports Credit Guarantee Department, a credit up to the limit of £300,000-£500,000, to examine the possibility of granting favourable insurance facilities to Icelandic vessels carrying goods to and from Great Britain, and to assist in the marketing of Iceland's surplus exports. The constitution of, and instructions to, the joint standing committee were set out in an annex which provided that Icelandic interests should be represented by delegates appointed by the National Bank of Iceland and the Icelandic importers and exporters, trawlers, and shipowners. In this way the Icelandic Government would be able to avoid being officially involved in the committee's activities.

By these terms the British went some way to meet the Icelandic demands, although they retained the reality of control. M. Björnsson, in reply, sent on 6th January a formal letter of protest against the stoppage of trade with Germany, but added his own assurance that the Icelandic Government would not object to the setting up of the joint standing committee. Protests received from the Danish, Norwegian, Swedish, and Finnish legations in London at the British demands on Iceland were a formal demonstration of Scandinavian solidarity. There were some objections by the Icelandic members to meetings of the committee in London, but after a warning from the British that this attitude would imperil the whole arrangement, the Icelandic members agreed to regard the committee as constituted.

From this point, until the occupation of Iceland by British troops in May opened a new phase in the relations of the two countries, the system of control of Icelandic exports worked extremely smoothly, and there was no serious attempt at evasion. The British delegates later saw evidence in the shape of the diary of a German consular officer, which showed how effectively all trade with Germany had been stopped. This result was due primarily to the effective powers given to the committee. Although the Icelandic Government had refused to set up an official joint standing committee the unofficial committee had authority so extensive as to give it complete control.

Under the constitution of the committee traders were required to sign a formal declaration of adherence 'to the recommendations which shall from time to time be laid down by the committee'; those who signed formed an 'association' and were admitted to the 'privileges and facilities' which the committee could dispense. This included participation in the credit facilities. Similarly, ships could only carry goods which were consigned to, or by, members of the association if they wished to be exempted from calling at a British contraband-control base.

(vi)

The Iron-ore Problem

The war-trade negotiations with the Scandinavian countries, although resulting in some extensive damming and diverting of traditional trade channels, had not for the most part entered the sphere of the highest Allied strategy. But almost from the first day of the war the severing of German iron-ore supplies from Norway and Sweden had interested Mr. Churchill, and we have already made brief reference to the importance of this problem in Anglo-French policy during the winter (pp. 44-6). The War Cabinet, as we have seen (p. 147), decided in November that it must acquiesce in the Swedish terms for the supply of iron ore, but the possibility of preventing supply by other means had already reached the stage of serious inter-departmental discussion at a meeting called by Mr. Churchill on 2nd November. The Ministry had taken the view that if the Fleet were sent into the Baltic, and successfully dominated it, all Swedish trade with Germany could be stopped, as nearly all of it was carried in German ships. Any such naval action was impracticable at this stage of the war, and the Government wanted the early signature of the Swedish shipping agreement; the draft war-trade agreement with Sweden was therefore accepted, but the hope remained that other methods—internal Swedish action or the interception of iron-ore supplies sailing from Narvik—would be effective.

It was already known that small shipments from Narvik to Germany had recommenced, and during November the importance and vulnerability of the route made the stoppage of the Narvik leak in the blockade a major problem of government policy. The question was raised at a cabinet meeting on 30th November, when the First Lord of the Admiralty pointed out that the trade could hug the Norwegian coast, and that it might be necessary to force the ore ships into the open sea by mining Norwegian territorial waters. After Lord Halifax had in turn referred to the serious difficulties in the way of these measures, it was agreed that the first stage should be an examination

by the Chiefs of Staff of the military problems involved, including the counter-measures of retaliation that Germany could take, and an examination by the Minister of Economic Warfare, in consultation with other ministers, of the economic effect on Germany, and of the possible effects of German and neutral retaliation in the economic sphere.

In accordance with these instructions very full reports were drawn up during the first half of December, but these elaborated both the pros and the cons of coercive action and did not give the War Cabinet a very clear lead. The Ministry was convinced that Germany would be faced with a very serious crisis in the following spring if the iron-ore traffic were stopped, and it was to that extent the protagonist of direct action against the Narvik traffic.

The Ministry put forward three main arguments. First, German stocks of iron at the beginning of September had been low; it was estimated that, even if her military consumption remained at its existing low level, Germany would need to import at least nine million tons of iron ore from Sweden during the first year of war in order to avoid a major industrial breakdown. Secondly, a substantial reduction of German iron-ore imports could be effected only by the stoppage of the Narvik traffic. Germany had imported from Sweden a little over $2\frac{1}{2}$ million tons of iron ore in the first three months of war. Iron ore from the smaller Swedish field in the province of Kopparberg was exported from Swedish ports on the Baltic which were ice-free all the year round; the most important of these were Oxelösund and Gävle. During the first three months of the war, shipments of iron ore from these southern ice-free ports were 150,000 tons, 300,000 tons, and 350,000 tons respectively. The main Swedish field, in the northern province of Norbotten, could not normally make use of Luleå between mid-December and mid-April; if the Narvik route were closed and if the rate of shipment from the southern Swedish ports showed no increase, the total intake of Swedish iron ore by Germany in the first eight months of war would be only about $4\frac{3}{4}$ million tons, or under $7\frac{1}{2}$ million tons a year. If shipments from the southern Swedish ports should reach their probable maximum capacity, namely 500,000 tons a month, and if there were no imports from Narvik or Luleå, then the total German intake for the first eight months would still be only about $5\frac{1}{2}$ million tons, or about $8\frac{1}{4}$ million tons a year. 'To put it at its lowest, this would certainly mean acute industrial embarrassment for Germany', and a serious industrial crisis in April. Thirdly, it was imperative that the Narvik traffic should be stopped at once: when the ice melted in the Gulf of Bothnia in the spring, Germany would be able to resume imports through Luleå, and might very well be able to increase these imports considerably. 'Thereafter the situation is unpredictable, the more so as by the end

of 1940 supplies from Russia may become available.' But if the iron-ore exports from Narvik were stopped at once her position from the purely economic standpoint would be so serious by the spring 'as to appear to justify the risk of considerable handicaps to ourselves in the spheres of politics and supply in order to bring it about'.

In the second part of its report the Ministry had to set out the counter-measures which Germany might take in the economic sphere, and estimate their importance. The general conclusion, as one could expect from its previous comments, was that the damage likely to be caused to Germany by the prompt carrying out of the action contemplated would heavily outweigh any damage which she could cause by retaliatory measures. The position with regard to the individual countries concerned was as follows:

1. Norway. Her chief value to the Allies was as a source of ferro-alloys, aluminium, zinc, calcium carbide, and, to a lesser extent, fish, timber, wood-pulp, iron ore, and eggs. She had agreed to charter to Great Britain a substantial tonnage of oil tankers and tramp steamers. In the event of a total stoppage of imports, all these goods could, with more or less delay and inconvenience, be obtained from other sources. Fish could be caught off British shores or imported from elsewhere, and increased supplies of timber and wood-pulp could be obtained from Canada. Norway was the chief source for supply of certain ferro-alloys (ferro-chrome and silico-manganese) and calcium carbide, but even these commodities could be purchased from the United States and shipped to England. Other ferro-alloys could be replaced from other sources without difficulty. Nine thousand tons of aluminium were to be imported from Norway for aeroplane production during the first year of the war, but these supplies could easily be obtained from the United States. The change-over would mean an extra strain on shipping, and an extra drain on dollar currency, but in any case the Norwegian and Swedish currencies were 'not easy'.
2. Sweden. She was of value to the Allies as a source of iron ore, ferro-alloys, charcoal pig-iron, charcoal steels and other special steels, and, to a lesser extent, of timber, wood-pulp, paper, and bacon. There was an advantageous agreement with Swedish shipowners. Britain hoped to import $2\frac{1}{2}$ million tons of Swedish iron ore during the first year of war, although these supplies could, at some inconvenience, be replaced. Charcoal pig-iron had certain unique qualities, and steel wires derived from this material had substantial advantages over all others for balloon-barrage purposes. Pulp, paper, and timber would be a serious loss. Swedish bacon was useful, but less important. All these

commodities were, however, likely to be lost to the Allies at any time through German interference with Swedish goods passing out of the Baltic, unless they were routed by rail across Norway for shipment from Bergen or Trondhjem (or in the case of iron ore, from Narvik).

3. Denmark. Supplies of dairy produce of all kinds, and particularly of bacon, butter, and eggs, were of great value, but they might at any time be cut off by German action, whatever course Britain might pursue. The greatest difficulty was bacon, of which forty to fifty per cent. of Britain's total imports came from Denmark. The position would, however, be substantially eased in the spring by supplies from Canada, if the Atlantic sea-routes could be kept open. Butter could probably be replaced at once by imports from the Dominions, and at cheaper prices.¹
4. Finland and the Baltic states. Owing to the Russo-Finnish war, mineral and timber imports from Finland could not in any event be maintained, and this left dairy produce, and flax and flax seed. The latter could not be replaced from any other source, but their loss would not prove fatal to the war effort. Exports from these countries were already extremely precarious, owing to German interference with all cargoes leaving the Baltic, except those able to pass through Swedish territorial waters.

It was not, however, necessary to assume that the Scandinavian countries would cut off supplies in response to British interference with the Narvik traffic. Norway feared German retaliation, particularly German bombers, and might cling to 'strict neutrality', even to the point of denouncing the shipping agreement, refusing to sign the war-trade agreement, and cutting off exports to Great Britain. Nevertheless, she had to live, and to do so she must charter her ships and maintain her exports. In any case, German bombing would not open the Narvik route to Germany, and Britain could still prevent Norway from supplying Germany with whale oil and fish, for the fish industry was dependent on Britain for supplies of fuel oil, ropes, nets, etc. Sweden was less susceptible to German pressure than Norway, and was extremely indignant at Germany's action in extending her mine-field from the Swedish four-mile limit to the three-mile limit. It was believed that she would secretly welcome British action on the Narvik route, and would not modify her policy unless forced to do so by German military action. Denmark would not be directly concerned,

¹ It would have been more correct to say that butter from Denmark could be replaced by increased United Kingdom production of margarine, as in fact happened later.

and in existing circumstances the attitude of Finland and the Baltic states was hardly material.

Germany, on the other hand, was not likely to succeed by any pressure short of active military measures in preventing shipments from Bergen and Trondhjem, and these ports could, by the full use of existing rail facilities, deal with all Swedish and Norwegian exports to Britain except timber. There seemed no reason why Swedish iron-ore exports to Britain through Narvik should cease. At the worst, if all Scandinavian exports were cut off, the Allied war effort would be hampered, but not seriously dislocated; immediate British action would, however, 'be very likely to bring about severe industrial dislocation in Germany next spring'.

The report of the Chiefs of Staff Committee on the military aspects of the problem was, on the whole, satisfactory from the Ministry's point of view. During the last war attempts had been made to interrupt the Narvik traffic to Germany, outside territorial waters, by cruiser and destroyer sweeps up the Norwegian coast, by submarine patrols, and by patrols at the entrance to Vest Fjord, at the head of which Narvik lies. All these efforts had proved abortive, as shipping could remain inside territorial waters from Narvik to the Naze. As a result of severe pressure, the Norwegians were induced in September 1918 to lay an anti-submarine mine-field in their waters as an extension of the northern barrage, but this left open a channel to merchant shipping inside territorial waters. Two courses of action were in existing circumstances available. One was the laying of a mine-field in Norwegian territorial waters in order to force shipping out into the open sea; much the best site for such a field was off Stadlandet ($62^{\circ} 10' N.$), where the depth of water would permit the mine-field being extended far enough to seaward to compel a really good offing. But this had the disadvantage of being the nearest position to Germany. In any case, as the mines would be shallow, and coastal navigation lights might be extinguished, the maintenance of the patrol would be difficult; losses of merchant shipping would further exacerbate neutral opinion. The committee clearly preferred the second alternative, namely, the stationing of a small naval force in Vest Fjord. Outward-bound ships could be intercepted without difficulty, only a small force of destroyers would be necessary, and in the long run the course might prove less objectionable to Norway than the sowing of mines.

The committee showed itself, however, to be considerably impressed by the strategic disadvantages to the Allies which might result from German retaliation. Germany's first move would certainly be a peremptory demand that Norway should assert her rights as a neutral; Norway regarded the Russian attack on Finland as the first stage of an advance on Narvik, and the British Government had

decided that it could not give her any guarantee against Russian aggression. A British infringement of Norwegian neutrality might, therefore, precipitate a German-Norwegian alliance. But, whether in collaboration with Norway or not, Germany's first object would probably be to establish air and naval bases in southern Norway. She might well succeed in doing this, and so eventually be in a good position to intensify her attack on British naval forces and bases, dispute the control of any British mine-field in Norwegian waters, and intensify attacks on British convoys. Great Britain could not prevent an invasion of southern Sweden, which Germany might undertake in order to secure control of the Grangesberg ore deposits. A German advance into southern Scandinavia might precipitate a Russian advance to Narvik, and it would be very difficult in this case to maintain a British patrol in the Vest Fjord. In fact, the committee felt that the strategic disadvantages of the proposed British action 'require to be very carefully weighed against the economic loss which Germany would sustain'.

Clearly the Service chiefs were not too anxious to employ direct action against the Narvik supplies. A note by the Joint Planning Sub-Committee suggested that methods other than naval might be found to stop ore leaving Narvik, such as pre-emption, sabotage, or the purchase of the ore quays. The Ministry's comment on this was that pre-emption of the ore itself was useless; the matter had been examined, but there was plenty of margin under the existing Swedish laws for production to be increased, so that the extra expense would not stop German supplies. The organization of the port made it somewhat doubtful whether the purchase of quays could be made fully effective; sabotage would prevent shipments to Great Britain as well as to Germany. The Ministries of Food and Supply were also more impressed by the disadvantages than by the possible gains likely to result from direct action.

This by no means marked the end of the technical discussion between the departments, although this summary of the arguments is sufficient to show that the balance of advantage which could result from the adoption of either policy was a rather fine one. The weakness of the Ministry's position was that it was supporting an unconventional and, no doubt, risky policy with evidence which was largely hypothetical. It was impossible to say very explicitly what the effect on Germany of a stoppage of the Narvik iron-ore supply would be; it was, on the other hand, very easy to define in precise and gloomy terms the probable effect on the supply position at home.

The case for action was, however, strongly supported by Mr. Churchill, and his influence seems to have been mainly responsible for the decision in favour of direct action taken at the end of December. At a cabinet meeting on 15th December, he proposed that four or

five destroyers should be sent into the more lonely parts of Norwegian territorial waters to arrest all ships carrying ore to Germany. The need for prompt action was increased by a report that the Norwegian Government was proposing that shipping should be convoyed by the Norwegian Navy within Norwegian territorial waters. On the following day he told the cabinet that the Naval Staff had come to the conclusion that it would be wiser to adopt the alternative plan of laying mines. This change of view was apparently due mainly to the belief that the second course would avoid the risk of serious clashes between the British and Norwegian navies. By this time the situation had been further complicated by the Soviet-Finnish war, and later decisions were due increasingly to political and military considerations, although iron ore remained a major—possibly the main—objective throughout. Lord Halifax introduced the wider question of the effect on Scandinavia of the Russian invasion of Finland at a further meeting of the cabinet on the 18th. The possibilities that he wished to be considered were: (1) an early collapse of Finland which might result in the Russians going on to make demands on Sweden; (2) an effective resistance by the Finns, which might tempt the Russians to put some of the blame on Sweden and demand her complete neutrality; (3) the situation which might arise between Germany and Sweden if the Soviet Government should make unacceptable demands on Sweden, and if Germany should in consequence fear the stopping of Swedish iron-ore supplies; (4) the military problems confronting Great Britain if Germany, owing to a threatened Soviet invasion, should feel it necessary to intervene in Sweden in order to safeguard her supplies of iron ore. The problem was discussed on these lines at a meeting of the Military Co-ordination Committee of the cabinet on 20th December, and was again discussed in the cabinet on 2nd January, where a final decision as to the plan of action with regard to the iron-ore supplies was taken. At the fourth meeting of the Supreme War Council of 19th December, M. Daladier, who had been greatly impressed by a memorandum of Herr Thyssen on the vital importance of Swedish iron ore to Germany, proposed a diplomatic *démarche* to Norway and Sweden encouraging them to assist Finland.

The course of these discussions served merely to re-emphasize the strength of both the pros and cons of the case for intervention. There seemed little doubt that Germany's inclination to invade Norway or Sweden had been increased by the Finnish war, owing to her fear of a Soviet seizure of the northern Swedish mines, or of a British seizure of the mines under the excuse of protecting Norway and Sweden from Soviet attack. A British seizure of Narvik, or possibly a mere sowing of mines, would therefore be more likely to produce German intervention than before. Throughout these discussions Mr. Churchill appears to have maintained that the balance of ad-

vantage would be with the Allies even if Norway and Sweden were drawn into the war; the Service chiefs were, however, less happy at the prospect, and Mr. Cross and Lord Halifax stressed the fact that the economic losses might be considerable. In view of the increased danger of German intervention it was clear that a real measure of success—that is, the cutting off of the Narvik iron-ore supplies without counterbalancing disadvantages in the shape of serious economic or military retaliation by Germany—depended even more now than it had done before December on the acquiescence of Norway and Sweden in the British action, and this became the determining factor in the procedure that was followed.

There seemed good reason to believe that in view of Germany's ruthless sinking of Norwegian, Danish, and Swedish merchant shipping, public opinion in the Scandinavian countries would be predisposed to condone action by Britain as the executor of rough justice against an enemy who had 'broken all the rules'. The British Government had, however, already taken action against the enemy's exports in retaliation for his indiscriminate sinkings and mine-laying, and any violation of Norwegian neutrality would, from the point of view of international law, have to be justified on the ground that Norway had been unable to defend her neutrality, or had been guilty of an illegal or unneutral act against the Allies. The question had therefore to be asked: Did Germany's use or misuse of Norwegian territorial waters provide any such justification for British action? Furthermore, if justification appeared to exist from the point of view of international law, was the case one that would satisfy opinion in Norway, in other neutral countries, and in Great Britain? On 8th December, the *Thomas Walton*, a British ship under charter to the British Government, outward bound in ballast from Port Talbot to Narvik, was torpedoed without warning in the Vest Fjord. One man was killed. Although there appeared no doubt that the sinking was due to German action, and that it took place in Norwegian waters, it could not be argued that the one episode proved that Norway was unable to defend her neutrality, although it did give the British Government grounds for a warning that if such an incident recurred, steps would have to be taken to prevent British ships being attacked. Two further incidents did, in fact, occur during the next few days. These provided a basis for British action, although as the government's aim was to stop the iron-ore traffic, it had no intention of pressing Norway to provide for the safe passage of ships through her territorial waters. It did not follow, however, that a case which would satisfy an international lawyer would appeal with equal force to the Norwegian Government and people.

By the middle of December, when shipments from Luleå to Germany stopped, the Ministry was already in possession of figures

showing that substantial shipments of iron ore were going to Germany from Narvik. The legation in Oslo estimated the shipments for November at 70,100 tons, and for the period 1st-15th December at 34,200 tons. Estimates from other sources were somewhat higher for November. At the end of the month the British consul at Narvik telegraphed that the Swedish Ore Company was working twenty-four hours instead of sixteen hours a day, and that eighteen trains instead of ten would run from the mines to Narvik. This was not, in itself, unusual, as it was the practice at this time of the year to work the northern mines as hard as possible in order to build up big stocks at Narvik before the ore froze in the trucks at the end of January, and caused a complete suspension of work. The news was, however, disturbing, in view of the hopes that had been based on the secret Swedish promise to curtail shipments, and it was felt that the Swedes could have found some means of preventing this great increase in working hours. On 30th December, Sir Edmund Monson was instructed to ask M. Marcus Wallenberg, the chairman of the Swedish representatives on the Standing Commission, how he reconciled these increases with the secret assurances that had been given, and whether any action would be taken to prevent their continuance. Wallenberg replied on 6th January that the twenty-four-hour day was entirely normal at this time of year; sixteen trains a day were to run to Narvik during January, and this was abnormal, but was due to the fear that the majority of employees at Kiruna might at any moment be mobilized. As the Swedish promise, such as it was, had been based on the assumption that the British would take steps to prevent the Narvik traffic, there was no very valid ground for protest. During December, eleven ships sailed from Narvik for Germany, as compared with eight in November, and although this represented an increase, it was hardly on a scale to suggest any abnormal effort by Germany at this stage to obtain supplies.

On 27th December, Lord Halifax had given the Norwegian and Swedish Ministers copies of an *aide-mémoire* which said that the British and French Governments were prepared to offer unofficially to Finland all the indirect assistance in their power, and were prepared to consider in what form an assurance could be given to Sweden and Norway of Franco-British help 'against the possible consequences to those countries of giving such direct and indirect assistance as they might afford to Finland'. Any hope that Britain would be allowed to occupy, or otherwise control, the northern Swedish mines or the Narvik area as the by-product of a guarantee of Norwegian or Swedish independence was frustrated by a polite Swedish refusal on 4th January to discuss a guarantee 'in circumstances that were still hypothetical'. The cabinet had no intention of sending troops to Norway unless Germany started an invasion, but it agreed at a

meeting on 2nd January that in view of the sinking of ships by U-boats in Norwegian waters, the Admiralty should be free to stop German shipping using those waters. The French, while agreeing readily to this action, suggested on 5th January that it would be better not to represent it as a reprisal, but simply to say that the German naval activities had turned Norwegian waters into a theatre of war, and that the British Government found itself obliged in consequence to extend the scope of its naval operations into those waters. An *aide-mémoire* on these lines was given to the Norwegian minister by Lord Halifax on 6th January. It cited these cases: the *Thomas Walton*; the Greek ship *Garoufalia*, torpedoed on 11th December; the *Deftford*, under charter to the British Government, torpedoed on 13th December. All these sinkings were in Norwegian territorial waters, and were sufficient to establish the fact that these waters were being used by German submarines.

The rest of the story is one of anti-climax. The Norwegians and Swedes certainly took the *aide-mémoire* of 6th January to mean that the British naval forces would enter Norwegian waters almost immediately. Formal protests from the two governments had been expected, and it had naturally been assumed that the Norwegian reaction would, in the first instance, be a strong one. But it had been hoped that Norway would, in the end, acquiesce, and it was believed with considerable confidence that the Swedish Government, which had based its secret promise to restrict exports to Germany on the assumption that the British could stop the Narvik traffic, would view the British proposal with equanimity. The immediate appeals of the two governments for delay were, however, so emphatic as to suggest a state of consternation bordering on panic. A telegraphic message to the King from the King of Norway on 9th January made an unqualified protest against the proposed action, which it described as 'absolutely contrary to international law'. The Swedish ambassador, M. Prytz, gave Lord Halifax on 8th January a strongly-worded memorandum with a 'most emphatic and earnest appeal' to the British Government not to adopt the measures outlined on the 6th. M. Boheman, the Secretary-General of the Swedish Ministry of Foreign Affairs, had spoken strongly in the same sense to the British representative in Stockholm, Mr. Montagu-Pollock, on the 7th. The two Scandinavian governments had obviously every reason to keep the British plan secret, but on 19th January Professor Koht defended his policy in a speech in the Storting, and referred to the sinking of the three ships by saying that 'a whole month after this happened, British and French newspapers declared that Norway was unable to keep the war out of her territory and that consequently the Allies should encroach upon it with their warships'. There was no justification for this attitude: 'even if it is true that one of the belligerent

powers is violating our neutrality in so flagrant a manner, this gives the other side no right whatever to do the same'. He admitted that since the outbreak of war, Norway had lost twenty-eight ships of a total tonnage of 70,000, and more than 100 seamen's lives. In some cases there had been ground for suspicion that the sinkings had been due to U-boats. Two ships had, in fact, been sunk by German war-ships. He claimed that of the three ships mentioned, one only, the *Deptford*, had unquestionably been sunk in Norwegian waters. In none of the three cases was there proof of torpedoing; the loss might be due to mines. He had asked the German Government to investigate all three cases. Lord Halifax naturally sent a strong protest against the kind of language used by Professor Koht, which almost seemed to suggest that blame for the sinking of Norwegian ships might be equally divided between the Germans and the British.

By this stage it was becoming clear to Norway and Sweden that the British Government did not intend to enter Norwegian waters for the time being. In a broadcast speech on the 20th, Mr. Churchill appealed to the neutrals to do their duty in accordance with the League Covenant, and stand together with the British and French Empires against aggression and wrong. At present they were bowing humbly and in fear to German threats of violence, each hoping that if he fed the crocodile enough the crocodile would eat him last. The immediate effect of this famous 'fireside chat' seemed to have been a wave of panic throughout Scandinavia: this prompt confirmation of the First Lord's assertion left little doubt that there was no hope of tacit or open acquiescence by the northern neutrals in the British Government's plans. The personal sympathy of the Swedish minister, M. Prytz, with the British attitude seemed beyond doubt, and when Lord Halifax suggested on 8th January that the Swedish Government's plea was really, in colloquial language, 'Don't do it; but if you do, don't say anything about it', he agreed that this was in effect his government's position. There was, however, no doubt that the Swedish Government was genuinely alarmed at the situation, and the undoubted change in its attitude since before Christmas appears to have been due to its conviction that the Finnish war had, for reasons which have already been discussed, increased the likelihood of a German invasion. By this stage the British and French Governments were already contemplating an attempt to secure control of the iron-ore route to Narvik as a by-product of the sending of help to Finland by way of Norway and Sweden; it was obviously unwise in these circumstances either to precipitate a German invasion of these countries or to embark on an open quarrel with them. On 18th January, Lord Halifax asked M. Prytz what counter-proposals his government had to offer, and this meant in effect the postponement of British action over the iron ore for the time being.

Action was, however, merely postponed; the apprehension of the Swedes on the point was shown by repeated efforts during February and March to persuade the British Government that it had overestimated the importance of the Swedish iron-ore supplies to Germany, and also that a stoppage of the Narvik supplies might produce a German invasion of Scandinavia. M. Wallenberg argued at some length on these lines in conversation with Lord Halifax on 23rd January. On the following afternoon the Swedish Foreign Minister used similar arguments to Mr. Mallet, the British representative, who pointed out that if Germany could hold on for some time without Swedish ore, it seemed unlikely that she would be so foolish as to attack Sweden. An article on Swedish iron ore in the periodical *Le Nord* was reported to have been described by the author himself as 'all nonsense', written to the order of the Swedish Foreign Minister, who was 'starting a considerable propaganda to try and divert Allied attention from the iron ore'. A long memorandum, dated 5th February, elaborated still further the argument that Britain over-emphasized Germany's dependence on her Swedish imports. The Ministry was not prepared to modify its earlier view as to the extreme dependence of Germany on the iron-ore supplies, and pointed out that the Swedish arguments ignored among other things the indivisibility of Germany's war effort from her so-called 'industrial' effort; the very great anxiety which Germany was showing to get at least her normal proportion of Swedish ore was in itself sufficient answer. The Swedish Government, however, continued its arguments for some time. A Norwegian memorandum, dated 26th March, similarly argued that supplies of iron ore to Germany by the Narvik route since the outbreak of war 'has been so insignificant that it can hardly have played any part in that country's warfare'.

The British Government was quite unconvinced by these arguments, but the development of Allied policy in relation to Finland postponed action on the Narvik question. The Allied plans for an intervention in Finland, which would give them control of northern Scandinavia, were, however, very much influenced by desire to control the ore mines. On 5th February, at the Supreme War Council, the Allies agreed to offer Finland 100,000 heavily-armed troops, and a month later asked Oslo and Stockholm to permit the passage of Allied troops. By this stage Norway and Sweden had been told by Germany in unequivocal language that if Allied troops (as distinct from volunteers) entered either country, Germany would interfere; permission was therefore refused, and surely no greater piece of good fortune ever befell this country. On 13th March, Finland and the Soviet Union made peace.

The question of hindering iron-ore supplies by the Narvik route was raised again in the cabinet by Mr. Churchill on 18th March,

when he mentioned that a plan for this purpose was being examined by the naval staff. The cabinet did not at this stage contemplate immediate action. On 20th March a further report as to the views of Herr Fritz Thyssen somewhat strengthened the case for intervention, which the French Government strongly favoured. Thyssen had said that plants in the Ruhr were now shut down for three days a week owing to shortages of raw materials. On the 27th, the cabinet decided that formal notice should be given to the Scandinavian governments that the Allies could not allow the course of the war to be influenced against themselves by advantages derived by Germany from Norway and Sweden. Notice on these lines was given to the Norwegian and Swedish ministers on 5th April, and although the declaration was kept in rather general terms, the two governments expected that practical measures would soon follow. The Ministry made it clear that the practical effect on Germany of the stoppage of iron-ore supplies at this time would not be very great, as the Baltic route would be open again in a few weeks. The cabinet was, however, impressed by the psychological effect of the action on Allied opinion, and by the fact that it would make possible the extension of the eastern end of the northern mine barrage. A proclamation on the morning of 8th April announced that the British Navy had laid mines in three specified areas off the Norwegian coast; in practice, owing to weather conditions, mines were sown in only one of the areas, namely the Vest Fjord. Later, Professor Koht stated that his government decided on the same day that if the British had not complied within forty-eight hours with the Norwegian request for a removal of the mines, the Norwegian Navy would be ordered to remove them itself.¹ But the German invasion on the following night ended all talk of neutrality.

¹ H. Koht, *Norway, Neutral and Invaded*, pp. 49, 50.

CHAPTER V

WAR-TRADE AGREEMENTS: THE WESTERN NEUTRALS

FRANCE had a special interest in the war-trade negotiations with Belgium, Holland, Luxembourg, and Switzerland, and this group of agreements was also differentiated from the Scandinavian group by the fact that contraband could reach the four countries across their land frontiers, as well as by sea. The *Ministère du Blocus* took the initiative in the Swiss negotiations, and although the British were primarily concerned with those for Holland and Belgium, the French in each case conducted discussions of their own. All three sets of negotiations were complicated and prolonged by Anglo-French differences, due in part, it must be said, to the failure of the French on some occasions to understand the full complexities of certain issues. Pride of place in the story must be given to the Belgians, whose agreement was the first to be signed, and whose delegates showed the least propensity to haggle and manœuvre.

(i)

Belgium

The Belgian war-trade agreement, a unilateral declaration by the Belgian Government accompanied by an exchange of notes, was the second to be reached during the war (on 11th December). During the international crisis of September 1938 the Belgian Government had, on its own initiative, subjected to licences the export of forty-nine groups of agricultural and industrial products: for a period of several days commercial traffic between Belgium and Germany had been at a standstill. The relevant decrees were in force for only a few days, but they gave a useful indication of the probable action of the government in the event of war. Moreover, it could be taken as axiomatic that in such circumstances Belgian sentiment would be on the side of the Allies, although the trading classes of the country would endeavour to sell in the best market. It was not difficult, therefore, to persuade Belgium, after the outbreak of war in 1939, to prohibit entirely the export of some commodities, and to limit the export of others to a pre-war average; the main difficulties arose over the special agreements relating to certain further products, and these

were not finally concluded until over three months after the original declaration of 11th December.

Belgium's industrial output depended on the import of raw materials; thirty per cent. of her total imports of all commodities were seaborne, including nearly all her imported foodstuffs. Pre-war figures suggested that the Allies in the event of war would be in a position to exert considerable pressure on her, providing that she continued to depend on them for these imports, and did not make arrangements with neutral sources such as the United States. They took forty-one per cent. of her exports, as compared with eleven per cent. taken by enemy countries, and supplied thirty-six per cent. of her imports as against twelve per cent. by enemy countries. Germany supplied hardly any of Belgium's key commodity imports; of these the Allies supplied nineteen per cent. of the cereals, twenty-six per cent. of oil-seeds, sixty-nine per cent. of wool and cotton, fifty-nine per cent. of hides and skins, and forty-four per cent. of metal ores. The iron ores needed for the Belgian and Luxembourg metallurgical industries were derived almost entirely from France (Lorraine). On the other hand, Belgium was dependent on Germany for about three million tons of coke and coal annually for her metallurgical industries, and the continued supply of these would probably depend on the continuation of certain exports to Germany. The chief of these were: livestock, especially horses (dependent, however, on the imports of fodder), phosphatic slag, of which Germany took forty-four per cent. of Belgium's exports, metals in various stages of manufacture (especially iron, copper, lead, and zinc) and processed textile fibres, of which Germany took the bulk. With the exception of flax, therefore, the metals and textiles could, in effect, be controlled by the Allies, as they controlled the imports of raw materials into Belgium for processing.

The economic and financial interdependence of France and Belgium was considerable: Belgium relied on Lorraine for 10 million tons (about ninety-three per cent. of her imports) of iron ore annually, and on France and her colonies for certain supplies of bauxite and nickel. In the event of war France would need the services of the Belgian industries to which she supplied the metals. The continuance of this Franco-Belgian trade would depend to a large extent on continued immunity from invasion and air attack of both the industries and the supply routes, for Lorraine was obviously vulnerable, and the principal Belgian industries were close to the German frontier. In peace-time, fifteen per cent. by weight of French imports and thirty-five to forty per cent. by weight of French exports passed by land and inland waterways through Belgium. Owing to this interdependence of France and Belgium, Great Britain assumed that France would naturally, in the event of war, play a leading part in

the Allied negotiations with Belgium and would be reluctant to curtail Belgian imports too severely. On the other hand, the economic situation could not be considered without reference to the political and military factors; owing to Belgium's geographical position, a satisfactory economic agreement with the Allies might well provoke Germany to some infringement of neutrality, which in turn would provoke the Allies into a tightening-up of the contraband control. The Belgian Government would have, furthermore, to decide how far it could venture to go in risking trouble with its more overbearing neighbour.

WAR-TRADE NEGOTIATIONS (September–December 1939)

On 28th, 29th, 31st August and 5th September 1939, the Belgian Government announced various lists of commodities, the export and transit of which were subject to licence. On 9th September it was reported that the German embassy had set up a purchasing bureau in Brussels, although there was as yet no sign that it intended to negotiate any agreement. The Belgian Foreign Minister showed some nervousness over the possible German reaction to the large orders for war material that Great Britain was placing in Belgium, but, nevertheless, seemed anxious that war-trade negotiations between the two countries should begin as soon as possible. A Belgian delegation left for Paris on 11th September, and on the 20th M. Van Langenhove, the Belgian Secretary-General for Foreign Affairs, came to London 'unofficially' for preliminary discussions. He contended that as a matter of international law Belgium could not 'deal on a different basis with different belligerents', that Belgium was anxious to maintain her trade with overseas countries and other European neutrals, and that it would be best to avoid questions of principle and 'settle practical arrangements covering various classes of commodities'. The impression gained was that M. Van Langenhove was more sympathetic 'than his instructions allowed him to show', and he seemed most anxious to help solve any difficulties. At a meeting at the Ministry of Economic Warfare on 21st September he presented a draft formula in the form of a statement that the Belgian Government had subjected all main commodities to strict control, had prohibited entirely the export of certain other commodities, and would limit exports to belligerents of a further list of commodities to the quantities exported during a standard period to be agreed upon.

The all-important question was clearly the composition of the three lists of specified commodities which would be annexed to the formula.

The Belgian Government accepted this draft formula as a basis for negotiations, and a Belgian delegation arrived in London for a meeting on 3rd October. In view of the customs union between Belgium and Luxembourg, a Luxembourg representative was included. The

French Government had meanwhile suggested amendments to the 'Langenhove formula', of which the chief were that export of certain commodities should be restricted to normal pre-war limits, not only to belligerents but also to neutrals, and that the Belgian Government should undertake to furnish monthly statistics of exports and export licences. The French amendments were handed to the Belgians (who did not like them), together with draft lists of partial and total prohibitions. With regard to the 'special arrangements' for tin, zinc, lead, copper, wool, and cotton, it was agreed that experts should have informal exploratory conversations, and should also discuss the other lists. Five meetings took place within the next few days. A further informal meeting was held on 6th October with the Vicomte de Lantsheere, M. Gérard, and M. Le Bon to discuss methods by which the Belgian Government would enforce the export regulations resulting from the war-trade negotiations. M. Le Bon explained that all commodities on the A and B lists would require export licences, and that none would in fact be granted for A commodities (total prohibition of export to all destinations) except in the case of stores for ships sailing from Belgian ports. Regarding list B commodities (export limited to pre-war averages), a sharp watch would be kept on the figures for trade with neutrals, and any suspicious increase dealt with individually. On the question of transit trade, M. Le Bon announced that he had prepared a draft declaration which would tie down any Belgian importer handling transit goods. By this the importer would declare the nature and quantity of the cargo and its destination, and undertake not to change the destination. By this means the importer would voluntarily surrender his normal right to send on goods which had reached Belgian ports but had not cleared the customs and so, technically, had not been imported into the country. The Belgian Government could not interfere with this right, but could and would hold to his undertaking any importer who had voluntarily undertaken to waive it. The Belgian delegates then returned to Brussels to discuss various points with the Belgian Government.

When the discussions were resumed on 24th October the negotiations proceeded without undue difficulty; agreement on the main points of principle was reached by 3rd November.

There was no difference of principle about list A, of commodities whose export from Belgium would be totally prohibited. With regard to list B, of commodities the export of which to belligerents would be restricted to pre-war levels, the main problem (apart from the composition of the list) was the danger of their re-export to Germany by neutrals. When this matter was raised by Sir Frederick Leith-Ross at the first meeting on 24th October, the Belgians suggested that effective control might be obtained by the conclusion of war-trade

agreements between Great Britain and the neutrals concerned, and the early issue by the Belgian authorities of statistics of exports. De Lantsheere then put forward the personal suggestion that trade with neutrals should be free up to the 'normal pre-war level' and thereafter the Belgian Government should demand guarantees against re-export. He added that there would be no danger until the pre-war limit was reached as 'all neutrals already had clearing arrangements with Germany' and that the requirement of guarantees would only be provisional, i.e., until Great Britain had concluded a war-trade agreement with the neutral concerned. A third problem was that of raw materials imported into Belgium for processing, the so-called '*travail à façon*'. The Ministry suggested that commodities of this nature would be more suitably made the subject of special arrangements, details of which would have to be discussed by experts. A fourth problem was that of transit trade.

The Belgians did not for some days seem ready to accept the British viewpoint with regard to *travail à façon* and the export of list B goods, but at the meeting on 3rd November fresh Belgian proposals were made which accepted the British suggestions in both cases.

In the first place the Belgian delegates suggested that there should be a new list altogether, called list C. On this list would be placed those commodities where *travail à façon* was allowed, so as to bring up the total exports from Belgium to belligerents above the level of normal pre-war trade. In addition, the list would include certain other commodities which the British had throughout recognized to be unsuitable for inclusion in A and B lists, although the Belgians had hitherto not been prepared to put them in a separate list. In making this suggestion now, the Belgians added that their government should have the power to reduce the amounts which might be exported in the ordinary way below the pre-war level, while leaving *travail à façon* free.

This was exactly what the British wanted. *Travail à façon* was of great value to them, and they did not wish their own use of these facilities to be curtailed. On the other hand, it did not seem likely that Germany would be able to continue to supply the raw material for this work, so that there appeared a reasonable chance that the arrangement, while benefiting Belgian trade, would be exclusively in favour of the Allies.

In the second place the Belgian delegates agreed to propose to their government that, in the case of key commodities, guarantees should be obtained in respect of all exports to neutrals until such time as the neutral state concerned had concluded a satisfactory agreement with the Allies. Although the British delegates had accepted as reasonable the Belgian proposal that exports of B list goods to neutrals should be free up to the level of normal trade and subject to guarantees against

re-export thereafter, they had argued that in the case of certain key commodities, of which cotton was an excellent example, a tighter system of control must be instituted. Otherwise it would be possible for a neutral to send to Germany the whole of its pre-war imports from Belgium. Here again the new Belgian proposal met the British objects entirely and was more satisfactory than a series of guarantees from the trades.

The question of transit trade seemed to be covered satisfactorily by a formula prepared by M. Le Bon. This was discussed on 25th October, and the British delegates pointed out that the Contraband Committee was concerned because no reference was made in this declaration to the re-export of goods manufactured from the raw materials in respect of which a guarantee was given. The British submitted an amendment to the text of the declaration to cover this, but M. Le Bon declared that the addition was unnecessary, as all manufactured products would be covered by lists A or B and his declaration was intended to prevent goods arriving in Belgium being declared 'in transit' after their arrival.

While these discussions on matters of general principle were proceeding satisfactorily there were detailed discussions about the contents of the various lists. Lists of commodities prepared by the Ministry were circulated for discussion on 26th October, and after further meetings were held on 27th, 28th, and 30th October, the negotiations were adjourned so that experts could be invited to attend. On 2nd and 3rd November meetings were held to discuss cotton, jute, and hemp. M. de Staercke, representing the Belgian cotton spinners, explained the steps already being taken by the Belgian Cotton Spinners Association to prevent re-export from neutral destinations to Germany, and said he hoped that a 'chain of guarantees' would be arranged which would be sufficiently binding to satisfy the British. In view of these assurances it was agreed provisionally that certain cotton manufactures should be placed on the B list. At the meeting on the 3rd, discussions with representatives of Belgian industries continued and as a result it was found possible to include several commodities in the ordinary lists instead of making special arrangements.

In the meantime negotiations on similar lines to those in London had been taking place in Paris and a provisional Franco-Belgian war-trade agreement was initialled on 23rd November. As the lists drawn up in Paris were found on examination to be considerably less comprehensive than the London lists, efforts were made to persuade the French to adopt the British lists, and by the end of November the lists were almost identical. The Belgian Government, however, asked the British and French Governments to agree on identical lists before the initialling and signature of the agreement took place. The Ministry

then discovered that, in the draft Franco-Belgian war-trade agreement, the French had agreed (1) to place no obstacle in the way of the importation into Belgium of the raw materials specified in list C and (2) pending the conclusion of special agreements, to allow the export to Germany in pre-war quantities of goods manufactured from these raw materials. The British believed that these terms would jeopardize completely the negotiation of the special agreements, and therefore told the French that they found the draft agreement unacceptable. The French were much taken aback, but drafted a new note stipulating that the undertaking to place no obstacle in the way of the Belgian imports did not apply to list C goods pending conclusion of the special agreements. The Belgian Government protested against the British refusal.

When representatives of the three countries met in Paris on the 2nd the Belgians were very 'sore and bitter at what they described as a French volte face'; the British and French counter-attacked by saying that a recent Belgian decision not to allow the conclusion of agreements between Belgian trade groups and foreign governments had changed the whole basis of the *accords spéciaux*. It appeared, however, that the Belgian Government objected to the form, as much as to the principle, of special agreements, and that its objection would be met if its own representatives were associated with the negotiations. It was accordingly agreed that the British and French Governments should undertake to conduct negotiations for the *accords spéciaux* in whatever form might be acceptable to the Belgian Government. The documents were finally agreed and initialled in Paris by the British, French, and Belgian delegates on 4th December; the British Foreign Office insisted on an addition to the British and Belgian notes to include Luxembourg, and the notes were finally exchanged on 11th December.

WAR-TRADE AGREEMENT, 11th December 1939

The documents included a unilateral declaration by the Belgian Government covering three lists, A, B, and C, and the Le Bon formula, the text of which was as follows.

DECLARATION

(1) { Le soussigné.....(nom de la personne ou de la firme) à.....reconnait être le destinataire
 (ou)
 réceptionnaire—le destinataire étant.....
 (nom de la firme) à.....(adresse et pays)
 de.....(indiquer les marchandises, nature, tonnage et toutes caractéristiques connues).

(I) { Cette marchandise est destinée à:
être déclarée pour la consommation dans le territoire de
l'Union Economique Belgo-Luxembourgeoise
(ou)
transiter sous le régime de la surveillance douanière à destina-
tion de (pays)
via (pays) en utilisant
..... (mode de transport).

Je prends l'engagement d'honneur et irrévocable de ne pas modifier
cette destination.

Le

(Signature)

(I) Biffer la mention inutile.

List A consisted of goods, the export of which was prohibited to all destinations; list B of goods, the export of which to belligerents and neutrals was authorized up to the average export of 1936, 1937, and 1938. The export of list B goods above that average would be allowed only on receipt by the Belgian Government of guarantees against re-export. List C represented goods which were to form the subject of special agreements. Under the terms of the agreement, list C goods could not be exported in the state in which they were imported, but after processing could be exported to belligerents up to the three years' average, and freely to neutrals with a guarantee against re-export. The Belgians also undertook to furnish the Allies with details of their exports and a summary of export licences issued. In return the Allies, 'while reserving the recognized rights of belligerents as regards the seizure of contraband of war', undertook to 'place no obstacle in the way of free passage to Belgium and Luxembourg of goods originating in or coming from Great Britain or submitted to a British control'. A further note made it clear that this Allied undertaking did not apply to list C goods. The British considered that the securing, at such an early date, of this agreement, involving as it did three powers (four, with Luxembourg) was a matter for satisfaction. The Belgians, in spite of an obvious fear of Germany and possibility of invasion at any time, and in spite of the unpleasant consequences of the British contraband control, had, apart from their outburst of 2nd December, behaved in a very friendly manner.

THE 'ACCORDS SPECIAUX'

It now remained to negotiate the special agreements covering list C goods. The discussions which had taken place during November with representatives of the Belgian leather, textiles, and metallurgical industries, had already produced the broad lines of agreement except in the case of wool; after consultation with MM. Alhand and

Morand, it had been agreed that the French commercial counsellor in Brussels should join the discussions. But the Belgian Government's decision early in December not to recognize agreements between trade groups and foreign governments necessitated a fresh start being made by negotiations with the British Government itself. It was agreed that discussions on textiles (other than flax), industrial diamonds, and lubricating oil should be held in London, those on hides and tyres in Brussels, and negotiations on non-ferrous metals, slag, phosphates, and flax in Paris. It was subsequently decided to transfer the discussions on hides to Paris. Agreement with regard to the various commodities (with the exception of lubricating oils) was reached by the end of February and notes were exchanged on 1st March. A few words must be said about the more important decisions.

The negotiations in London, with the exception of the wool discussions, proceeded satisfactorily. With regard to cotton, the British proposed, at the meetings on 28th and 29th December, a fifty per cent. reduction in the Belgian export to Germany of yarns, and a total prohibition of the export of waste. The Belgians offered only fifty per cent. reduction in waste. In the case of jute, the British proposed a fifty per cent. reduction in the Belgian export of yarns and a total prohibition of the export of jute sacks and fabrics. The Belgians demanded that the reduction in export of jute fabrics should be only thirty-three per cent. As jute was a British product and a German deficiency commodity, and as cotton waste, on the other hand, was not a German deficiency, the British offered to give way over cotton waste if the Belgians would give way over jute fabrics. The Belgians agreed, subject to the approval of their government. The Belgian Government agreed to allow the trade in industrial diamonds to be controlled by direct agreement between the Diamond Corporation of London and the Banque Diamantaire of Antwerp. The London discussions on lubricating oils also seemed at the time to have produced satisfactory results, although difficulties afterwards arose which postponed the conclusion of this agreement until after the signing of the others.

In the agreement of 11th December lubricating oils were included in list A (total prohibition of export to all destinations). This had caused great distress in Antwerp which had been the centre of a large distributing trade in lubricating oil, and during discussions in December Vicomte Duparc had urged the conclusion of some special arrangement for the continuance of Antwerp's trade. During the London discussions it was agreed that an association of Belgian importers of lubricating oils should be set up, and the Belgian Government agreed to direct negotiations between the Ministry of Economic Warfare and the association. The agreement would cover all lubricating oils in transit proper as well as those imported into

Belgium for processing. But on 11th January it was announced that the Belgian Government had 'many objections' to the proposals, and could not accept them. As the Belgian Government was thus vetoing a plan which it had itself put forward the British expressed their 'astonishment and annoyance', and said that they would be quite content for luboils to remain on list A. On 16th January it was announced that the Belgian Government agreed after all to the Duparc proposals, and negotiations with the oil companies were therefore continued. The outstanding problem at this stage was the disposal of 18,000 tons of lubricating oil which the Belgian Government wished to export to various foreign destinations. For a time progress was exasperatingly slow. In the end, on 2nd February, the British submitted a draft of a unilateral declaration by the Belgian Government, setting out the full British proposals. The final discussions were transferred to Paris. To the surprise of the British the Belgian Government accepted the draft 'with a few trifling changes of form only', while the French found it 'admirable'. Unfortunately the French oil controller, M. Pineau, held up the initialling of not only the luboil agreement, but of all the others, by bringing false news of an oil agreement signed in Brussels and taken to England by Sir Cecil Kisch.

The wool difficulties seemed at first insuperable. The Germans had intimated that maintenance of Belgian wool exports to Germany was of the utmost importance, and it was known to be a German deficiency commodity. The Germans threatened to retaliate against any reductions by cutting off German coke and coal supplies to Belgium. With every sign of reluctance and embarrassment the Belgians accordingly proposed to the British to reduce their export by fifty per cent. in the case of scoured wool and tops and by twenty-five per cent. in the case of carded and combed yarns. The British, however, raised the question of Poland and Bohemia-Moravia, to which there had been considerable Belgian export before the war, and the figures for which were not included in the statistics furnished by the Belgians. This would presumably mean that Germany would be able to add the former Polish and Bohemia-Moravian wool to her normal imports. The negotiations completely broke down and the British meanwhile stopped the sale of government-owned wool to Belgium. After communicating with Brussels the Belgians, 'with much reluctance', proposed that the total pre-war exports to Germany, Poland, and Bohemia-Moravia, which amounted to 9,751 tons, should be reduced immediately to fifty per cent., and by successive stages during the next six months to thirty per cent. The British accepted the proposal but during further discussions in Paris in February the reductions agreed upon were forty-five per cent. for yarns and forty per cent. falling to twenty-five per cent. for scoured wool and tops.

The Franco-Belgian discussions in Paris were more protracted, although agreement was reached by 12th January on phosphates, super-phosphates, and basic slag, and by 20th January on non-ferrous metals. Mr. Oliver Lyttelton, the British Non-ferrous Metals Controller, went to Paris for these discussions. In addition, the British Government asked that no Franco-Belgian agreement should be signed without the consent of the Ministry of Economic Warfare. The Belgians insisted on maintaining their exports of phosphates to Germany, arguing that their imports from France amounted to only twenty-six per cent. of their total imports of phosphates, that their phosphatic industry was thus independent of the Allies, and that Germany did not rely in any case on Belgium for a large proportion of her phosphate imports. The French demanded a total prohibition of exports of phosphates from Belgium and Luxembourg but finally agreed to an export of phosphatic chalk to Germany based on the average of 1936-38 exports, and exports to neutral countries only with guarantees against direct or indirect re-export to Germany. The export of phosphates of French or British origin, or submitted to Allied control, whether raw or processed, was completely prohibited. The French Government agreed not to impede the export to Belgium and Luxembourg of 200,000 tons of phosphatic chalk of French origin. The exports of superphosphates or rock phosphates from Belgium and Luxembourg to belligerents would be restricted to the 1936-38 average. A Franco-Anglo-Belgian commission would meet within fifteen days to discuss the Allied import of 30,000 tons of Belgian superphosphates in 1940.

The agreement on basic slag was reached on the same date, 12th January, without much difficulty. Belgium was the greatest producer of slag in the world, and in 1938 supplied 500,000 tons of the 580,000 tons imported by Germany. This represented over fifty per cent. of Belgium's total export of slag. Both Belgium and Luxembourg were ready to reduce considerably this export to Germany and the only Franco-Belgian disagreement concerned the amount of the reduction. The final agreement provided that export to Germany from Belgium in each quarter was not to exceed sixteen per cent. of the production of basic slag during that quarter, and from Luxembourg thirty-seven per cent.

An agreement on flax was drafted, but scrapped in favour of an agreement confirming the provisions of an arrangement of 18th September 1939 for the export from France of flax straw and the import into France of scutched flax, tow, and flax seed. The export to Germany of flax and flax products originating in France or Great Britain was prohibited. Belgium and Luxembourg guaranteed as minimum exports to belligerents the normal trade quantities of the first nine months of 1939, and undertook, subject to internal require-

ments, to issue freely export licences for British requirements on condition of unhindered export of jute from British India. The French undertook to 'give sympathetic consideration' to the maintenance of normal exports of sisal from French possessions.

The first meeting to discuss non-ferrous metals produced a deadlock, as the French proposed the inclusion of all such metals on list A and the Belgians on list B. On 18th January each metal was discussed separately, and, as a result, nickel, duralumin, bismuth, selenium, niobium, cerium, zirconium, beryllium, and iridium were put on the A list, and the export to belligerents of the other non-ferrous metals substantially reduced (in some cases to zero). The French and British were particularly satisfied with the arrangements reached over copper and cobalt; the pre-war average of copper exports to Germany, 26,000 tons, was to be reduced to a single export in 1940 of 6,000 tons, evenly spread over the twelve months, out of Belgian stocks, after which no further export would be permitted. The export of cobalt was reduced to 41·5 tons per annum.

The negotiations on hides and skins were complicated, owing to the varied types of skins involved, and delicate, owing to the financial interest of one of the Belgian delegates in Messrs. Feldheim, who supplied chamois for export to Germany, where it was used for military purposes. In the agreement of 11th December, certain items had been put on list B, on the understanding that an *accord spécial* would be concluded with the industry, whereby licences to the full amount would not be sought. As a result of discussions between the British embassy and the Belgian leather industry a tanners' federation known as 'Socotanne' was formed. The Belgian Government's prohibition of agreements between trade groups and governments changed the whole position, for this meant that hides and skins, as list B commodities, would continue to be exported to Germany in pre-war quantities, which had not been the British intention.

The Belgians then tried to argue that the A and B lists of the 11th December agreement could not be changed. At the meetings on 10th, 12th, and 17th January the French and Belgians reached agreement over certain reductions for export to Germany of various types of skins. The British ambassador at Brussels, after consultation with members of Socotanne, pronounced the agreement a 'signal victory for the Feldheim group' and strongly urged further drastic reductions. Although the British could probably have secured their demands, they decided, by the end of January, not to press the majority of them and insisted only on the following: (1) no chamois suitable for industrial purposes should be exported; (2) the export of dyed or morocco skins not coming under tariff item 466a should be reduced to fifty per cent.; (3) only hatbands for civilian use should be exported. Other skins could be exported to belligerents up to agreed

percentages, which were, however, in most cases zero. In the case of both the wool and the hides agreements, the Belgians undertook to put the restrictions in force without waiting for the formal signature.

The tyres agreement, finally, was negotiated in Brussels. After a deadlock the British suggested on 27th January that as Germany was importing tyres from Belgium as well as exporting a rather smaller quantity into Belgium, Great Britain should 'go for the balance' (about 2 tons per month only!). On 6th February agreement was reached on many points: the export of pneumatic tyres and inner tubes for both motor cars and motor cycles was prohibited to belligerents, but allowed to neutrals as list B products; bicycle tyres and tubes were put in the B list. The British and French pressed hard for the prohibition of the export of solid tyres to belligerents, but on 12th February agreed to their inclusion in list B, as the total average export of 1936-38 was only 84 tons.

REVISED WAR-TRADE AGREEMENT (1st March 1940)

The new Belgian declaration of 1st March covered, therefore, revised lists A and B, abolished list C, and substituted a new 'Special List' consisting of commodities whose export to belligerents was reduced either to a given percentage (in many cases to zero) or to a given weight. Paragraph 3 of the declaration allowed, however, the export of list C commodities to countries (a) providing the raw materials (i.e. *travail à façon*), (b) exchanging goods of the same nature (barter). The export of list C commodities to neutrals was permitted only against assurance of non-re-export, either direct or indirect, to belligerents. A further Belgian note agreed to the inclusion of Poland and Czechoslovakia under 'pays belligérants', an admission which they had for long stoutly contested. Exports above the normal average would be allowed to the occupied countries for the needs of the civilian population, 'suivant des modalités à convenir'. The documents were initialled on 13th February, and the Belgians agreed to put the special agreements into force without waiting for the final signature. They added that, unless lubricating oils were included, the signature would not be given. The formal signing took place, however, on 1st March, although agreement on lubricating oils was not reached until 13th March. This, the last of the special agreements, (1) allowed Belgium to export lubricating oils freely to various countries, primarily the Allies, Portugal, and neutral countries outside Europe; (2) limited exports in accordance with monthly figures to Italy, Switzerland, Spain, Greece, Norway, Japan, Sweden, the Netherlands, and Denmark; and (3) prohibited entirely any exports from Belgium to Germany. The exports under (1) and (2) would be conditional upon non-re-export to Germany. The fifth article of the agreement stipulated the upper limit of per-

mitted oil stocks in Belgium, and it was disagreement over this figure which had held up the conclusion of the agreement. The draft sent by M. Morand to the Ministry of Economic Warfare on 16th February had stipulated 60,000 tons as the maximum oil stocks to be held by Belgium at any one time. But M. Pernot considered this too high. By 7th March stocks in Antwerp had risen to 61,000 tons and none could be exported, as lubricating oils were on list A. The British considered 60,000 tons reasonable, but the French insisted on a limit of 40,000 tons. Then on 14th March it was announced that the Belgians had agreed to reduce the figure to 50,000 tons, which the French accepted.

THE 'LE BON' FORMULA

The Belgian war-trade agreement was one of the few which were signed early enough to function before the German invasions. In the Le Bon formula the Belgians had made an interesting attempt to solve some of the more awkward administrative problems of the blockade, and its rôle in the development of contraband control is worth a few words.

On 12th December it was announced that the Contraband Committee would now suspend the consideration of applications for navicerts in Belgium until Le Bon formulas covering goods had been received. The formula replaced the usual guarantees in the case of all goods on lists A and B, and supplemented the guarantee in the case of list C goods. Two types of the formula were printed: (1) for imports for land routes, similar to the text already cited (model B), and (2) for imports by sea and inland waterway from Holland, which asked for additional particulars, such as name of steamer, projected date of arrival, etc. (model A). Certain complaints were made in connection with the second type of form. It was pointed out that where navicerts had been applied for the importer did not usually know the name of the ship by which the goods would arrive, and that consignments for shipment could only take place after the granting of the navicerts; the local government officers, on the other hand, would countersign the Le Bon formula only if the particulars of the ships were entered on it. The British were able to reply that the section complained of was an addition to the form which had been made by the Belgian Government after the signing of the agreement, and that its deletion had already, on 22nd December, been suggested by the British Government. The Belgian Government apparently needed the name of the ship for record purposes, but agreed in January to the entry 'ship unknown' if the applicant undertook to give information later.

The Le Bon formula itself, however, was not without loopholes. Goods on arrival in Belgium could be dealt with in six ways: (1) imported into Belgium for consumption in Belgium; (2) allowed

to proceed in transit to a named consignee in a third country by a special route; (3) allowed to enter Belgium to be processed and then re-exported, i.e. *trafic de perfectionnement*; (4) placed in '*transit interrompu*'; (5) placed in '*entrepôt*'; (6) placed in '*admission temporaire*'. (1) and (2) were covered by the *Formule Le Bon*. To close the loophole in (3) the Belgians agreed to add a 'troisième pied' to the formula. Goods admitted for processing would be treated exactly as though they had been imported for home consumption. The differences between (4), (5), and (6) were subtle and difficult to understand, but it was clear that the British could not allow the Belgians to import goods in these categories. In conversations with an M.E.W. representative late in December, M. Le Bon agreed that the gaps were serious and admitted that, not only had the British the right to stop everything not covered by the Le Bon formula, but that he would do so in their place, and that the Belgians 'expected it'. He said that under the Barcelona and Mannheim conventions the Belgian Government could not refuse a licence for the transit of such goods to any destination, even Germany, and he intended therefore to warn the Belgians that if the goods were not covered by the formula under (1), (2), or (3) the goods would not be allowed to go forward. After 13th February, when the Belgians agreed to put the special agreements in force without waiting for formal signature of the revised war-trade agreement, the Le Bon declaration covered goods on lists A and B and the special list and rendered unnecessary the consular declarations for any such goods.

The difficulties which arose in connection with the hold-back agreements have been broadly dealt with elsewhere. It was maintained that A list goods proceeding to a Belgian port under a hold-back agreement could not be returned as they were under a total prohibition of export.

The Belgians had hitherto maintained that goods did not come under the regime of the lists until cleared through the Belgian customs, but they now argued that the ruling had been changed by the introduction of the Le Bon declaration, which had to be furnished before the arrival of the ship in port. The main difficulty under the hold-back system arose over the return to the contraband-control base of goods declared on a Le Bon form to be in transit. As the route had to be declared on the form, and the Belgian export licence issued for the same route, this would not allow for the sea journey to the British base. They therefore proposed an addition to the form to allow for what was called 'dual routing'. The British agreed on 20th March, requesting at the same time that goods not in transit, i.e. goods with a 'true import' formula, should, if possible, be returned on the same ship.

Other difficulties in the working of the Le Bon system were (1) the

neglect of the Belgian authorities to demand Le Bon forms for commodities arriving direct from the United Kingdom; (2) the furnishing by importers in Belgium of two Le Bon forms, one for Belgian consumption, to pass the contraband control, and a second declaring the goods in transit; (3) the discrepancy between the quantities stated on the navicerts and the ultimate amounts actually shipped. These matters formed the subject of much correspondence, but the gaps do not seem to have been finally closed. The Belgians also raised the question of *travail à façon*, where the processed goods were not returned to the country supplying the raw material. They suggested on 9th March an addition to the Le Bon formula to cover this, so that export licences could be issued for the country named as destination. This was incorporated in models 3A and 3B of the form. The other main problem was that of the traffic from Holland. Le Bon declarations were not insisted on for goods passing in transit from Holland through Belgium although there was a report that it would be obligatory after 1st April. On the other hand, the Belgians only issued transit licences for goods from Holland if accompanied by a Dutch export licence, showing the country of destination. The chief difficulty concerned not goods consigned to Germany, but goods consigned to countries via Germany. The Belgians insisted that, under the terms of the Barcelona agreement, they had no right to refuse transit licences, although M. Marchand, the Director of the *Office Central des Contingents et Licences*, admitted privately that they held them up as long as they could.

The first meetings of the mixed commission took place on 17th-20th April, when the Belgians acceded to the British demand that exports of listed goods to Denmark should now be granted as part of the German quota. They admitted that the British complaint at the time-lag in furnishing export statistics was justified; they also made it clear that they were doing their utmost to 'cut out the mushroom firms who apply for fraudulent export licences'. A permanent secretariat was set up to deal with further questions. A *Protocol de Clôture* recording the decisions arrived at was signed on 20th April, and, after ratification by the three governments, came into force on 8th May. Belgium was occupied the next day.

(ii)

Holland

The war-trade negotiations with Holland encountered far greater difficulties than those with Belgium. The Dutch delegates who visited London were given only limited powers, and had to wait,

sometimes for weeks, for instructions. This failure to keep in step with the Belgian negotiations is at first sight somewhat surprising, for the problems, particularly those of transit trade and *travail à façon*, were similar, and it was known that the two governments were keeping closely in touch. National temperament and a centuries-old tradition of stubborn commercial bargaining, which led British officials to recall ruefully the words of Canning's rhyming despatch, no doubt had much to do with the matter; there is every reason to think, also, that the Netherlands Government had very much in mind the methods which appeared to explain the successful maintenance of independence in the last war. The practical result was that a virtual deadlock in the negotiations was soon established, and there was no improvement until the beginning of 1940.

During the years 1914-18 the Netherlands had shown great unwillingness to submit to the economic pressure of the Allies. The existence of a common land frontier with Germany made the independence of the little state economically important to Germany; a large amount of German transit trade normally passed through Holland and by April 1915 the bulk of the German export trade was passing through Rotterdam. The Rhine conventions, by which all goods, even though addressed to named consignees in Holland, could be declared to be in transit and escape clearance as imports into Holland, made it impossible to rely on the Dutch export prohibitions. The Netherlands Government's desire to demonstrate its policy of strict neutrality had led it to avoid the conclusion of official agreements. Agreements had been concluded, however, with powerful groups of Netherlands business men, the most important of which were the Netherlands Overseas Trust and the Landbouw Export Bureau. These agreements had resulted in a considerable reduction in the export of Dutch produce to Germany; the entry of the United States of America into the war, and the American prohibition of certain exports, made it possible later for Great Britain to insist on the restriction of Dutch imports of fodder and fertilizers to the amount necessary for maintaining the home consumption of dependent products such as cattle, eggs, butter, and vegetables. This restriction on fodder imports relieved the United Kingdom of the necessity of purchasing Dutch surplus produce, but its reliance, until the last stages of the war, on imports of Dutch margarine prevented the exertion of full pressure. In negotiations for the use of shipping, Holland proved to be the most difficult of all the neutrals.

The aim of the Allies in 1939 was similar to that of 1914-18; it was (1) to deny to Germany, and if necessary to Italy, Dutch exports of foodstuffs, fodder, and livestock (particularly horses, cattle, poultry, vegetables, dairy produce, fish, fruits, and vegetable oils), minerals and metals (especially pig iron and ferro-alloys, iron and steel manu-

factures, tin and tin ware, zinc and manufactures, copper, and copper and bronze ware), textiles and textile manufactures, miscellaneous chemicals, machinery and apparatus, ships, boats, and aircraft; (2) to deny transit facilities for all goods destined for Germany and Italy, especially through the port of Rotterdam, and the use by the enemy of Netherlands shipping and shipbuilding facilities. The Allies were in a fairly strong position to exert pressure on Holland, who depended largely on her sea-borne trade for the maintenance of her national life, but the Netherlands relied mainly on Germany before the war for iron and steel manufactures, machinery, certain chemical fertilizers, and solid fuels, twenty-four per cent. by value of the Netherlands total imports in 1938 being obtained from greater Germany, as against eight per cent. from the Allies. The Dutch internal consumption of solid fuels (coal and coke) about equalled production and thus the imports from Germany would constitute an export surplus and would not be necessary in time of war. Cereals, cocoa, coffee, tea, and tobacco, together with mineral oils and the oleaginous fruits and seeds required for the vegetable oil industry, would obviously be unobtainable by Holland from enemy countries in time of war. Holland's trade with Italy amounted to only one per cent. of her total trade.

The United Kingdom took twenty-three per cent. by value of all Dutch exports (as against seventeen per cent. taken by greater Germany) and was thus the chief customer of Dutch goods, although this fact was considered to be of secondary importance for war-trade purposes. The main British imports from the Netherlands were agricultural, dairy, and garden produce, and some paper, tin, leather, and animal fats. Although these supplies were not necessary to Great Britain in time of peace, it might be difficult to find alternative sources in time of war. On the whole, however, it had seemed before the war that it would be better to cut off Netherlands supplies of fodder and fertilizers, even though this would deprive Great Britain as well as the enemy of valuable foodstuffs. In general, the Netherlands would be asked to prohibit the direct or indirect export to Germany of certain key commodities, and to prohibit, or limit to agreed quantities, certain other commodities.

The Allies would undertake to facilitate the unimpeded import of agreed amounts of commodities necessary to Dutch agriculture and industry, and to purchase agreed quantities of certain Netherlandic exports. As in 1914, it was thought desirable to secure the use of Dutch ships for the carriage of Dutch exports to the United Kingdom, of which fifty-two per cent. by value had been brought in Dutch ships in 1937. Further the Dutch shipbuilding industry was capable of producing 500,000 gross tons per annum; and it would be valuable to the Allies to secure the output of this industry as well as the use of

existing Dutch surplus ocean-going tonnage. It was also hoped to prevent the transit through Holland of all goods destined for Germany.

The question of an agreement on the basis of the standard skeleton draft was discussed by Mr. R. V. Laming, the British commercial secretary, with Dr. Hirschfeld, of the Ministry of Foreign Affairs, on 5th September 1939. A German Government mission arrived for a similar purpose on 7th September. On 13th September the Netherlands Government agreed to enter into negotiations with the Allies at once, and a Dutch delegation duly arrived in London.

Discussions began at the Ministry on 2nd October, but the Dutch adopted a completely *non-possumus* attitude, maintaining the right of neutrals to carry on normal trade both with belligerents and neutrals 'in accordance with the principles of international law'. An informal meeting was held in the afternoon, when the Dutch, who 'refused to yield one inch or to discuss any proposals, were left in no shadow of doubt that His Majesty's Government intended to exercise their legal powers to the full'. The delegation had not been given complete terms of reference, and the members spent most of their time airing grievances about the British contraband control. They then decided to return to The Hague and seek 'approval of their attitude'.

It appeared that the German Government regarded the Mannheim convention as being no longer in force, as it had denounced the *modus vivendi* of 4th May 1936 by a declaration on 14th November 1936, and withdrawn from co-operation on the International River Commissions (which included the Central Rhine Commission). The Dutch, however, still felt themselves bound by the convention, especially as they had made a declaration in November 1937 that in spite of the German denunciation the other signatories were still in principle bound by it. A further convention with France and Belgium dated 3rd April 1939 recognized the continued validity of the Mannheim convention with certain modifications. There seemed no doubt, however, that the Netherlands Government could, if it wished, circumvent this by internal legislation, compelling the named consignee to take delivery. Accordingly, on 7th October, the British minister at The Hague, Sir Nevile Bland, was instructed to speak firmly to the Minister for Foreign Affairs, pointing out that if the Netherlands Government persisted in its intractable attitude and continued to allow contraband to reach Germany under cover of the Mannheim convention, Great Britain would be obliged to submit imports into Holland to 'an even more stringent inquiry'. He was also empowered to hint that 'this by no means exhausts the courses of action open to His Majesty's Government', a threat which implied rationing. The minister, however, thought that the Dutch were hesitating through doubt as to whether 'hostilities had really begun'.

If peace were patched up, and if in the meantime they had incurred Germany's resentment, retribution would assuredly follow, for in such matters Germany was like the elephant. Sir Nevile thought this to be a very reasonable explanation of the Dutch attitude and that it would be better in the circumstances to wait for a few days.

The Ministry was not inclined to let matters slide either in connection with the war-trade negotiations or with the 'counter-blockade' which the Dutch seemed to be operating against Great Britain. The Ministry of Food called attention to the refusal of the Dutch Government to grant export licences for (1) farina and dextrin, (2) cocoa butter, (3) vegetable oils and oilseeds, large quantities of which actually belonged to British firms, (4) condensed milk. With regard to condensed milk, the Dutch were claiming that the rise in costs of raw materials (particularly sugar and tinsplate) made it impossible for them to export economically at the maximum price fixed. In certain other cases the Dutch were interested in securing higher prices; the government was also believed to be holding up exports in order to conserve stocks. The matter was not primarily one for the Ministry of Economic Warfare except in so far as it would have to take account of Dutch export policy in negotiating the war-trade agreement. The situation was complicated by the apparent inability of the British legation to understand the meaning or the urgency of the Ministry's instructions; some relaxation of the Dutch restrictions might have been secured if cases had been taken up more promptly. From time to time there were concessions; on 31st October Dr. Hirschfeld informed the legation that dispensation of export prohibitions would be granted for normal quantities of farina and dextrin, but that no dispensation could be granted for vegetable oils or cotton waste as stocks were too small. Condensed-milk exports were normal, but owing to the low prices prevailing in the United Kingdom were likely to fall off. The 'counter-blockade' continued to cause trouble until the end of January.

The Foreign Office and the Ministry saw no reason of high policy why the necessary pressure should not be exerted, and instructions were therefore sent to the British minister to find out whether the refusal of the Dutch delegates to enter into negotiations was final. By this stage the Dutch had evidently made up their minds that there was, in fact, a war on, and they showed a disposition to explain away their earlier attitude. When Sir Nevile Bland saw the Foreign Minister on the 20th, the interview was amicable: Dr. Van Kleffens thought there had been no little misunderstanding on both sides, 'not the least in regard to the Mannheim convention'. On this point there seemed to be no difficulty whatever; it would be a simple matter to call (through the British consul-general) for a declaration from the consignee that goods were for internal consumption.

The delegation now returned to London, and negotiations with both Dutch and Belgian delegations recommenced on 24th October. At the meeting between the Dutch and British delegates in the morning of that day M. Michiels, the Netherlands minister, said that it was his determination 'to arrive at an understanding on all points'; serious business began with the handing to the Dutch of a draft statement identical with the Langenhove formula with the French amendments. This document was in the form of a note to be addressed by the Netherlands minister to the British Foreign Secretary; to it would be annexed lists A and B, of total and partial prohibition. It proposed that goods on list A should be totally prohibited to all destinations on the specific ground that they were required for national defence and the subsistence of the population. In the preliminary discussions with the Belgians the British had suggested that list A goods might be exported to neutrals with whom the Allies had concluded a satisfactory war-trade agreement; the Belgians had refused to listen to this proposal, but the Dutch on the other hand now objected to the formula about national defence and subsistence as an 'idée Belge' and insisted on their own favoured formula, 'commerce libre entre les neutres'.

There was a prolonged discussion on this point, and when it looked like ending in a complete deadlock, M. Michiels proposed that the relevant paragraph (No. 2) of the draft note should be amended so as to prohibit the export of the specified commodities to belligerents, but to permit such exports to neutrals. 'His Majesty's Government would address a note to the Netherlands Minister saying that it was understood by the two parties that for the purpose of this paragraph "neutrals" meant those neutral states who had concluded a war-trade agreement with His Majesty's Government.' This proposal was discussed further at a meeting on 28th October, when the Dutch agreed that their proposal should apply to goods on list B also. The British representatives announced that they were prepared to put forward the amendment to the British Government, providing a satisfactory A list could be prepared.

The Ministry was not greatly attracted by this solution, but it was to form the basis of the arrangement with regard to the two lists in the final agreement. The main lines of an agreement on the question of transit trade were also outlined at the meeting on the 28th. M. Lamping of the Netherlands Ministry of Economic Affairs said that his government had to maintain its conclusion that, under the Mannheim convention, it had no right to stop transit traffic, and, furthermore, it could not prevent a consignee in the Netherlands from declaring goods in transit after they had actually arrived in the country. He proposed, however, that the difficulty should be met in two ways.

1. A central organization under government control would be set up to which all goods, the export of which from Holland was restricted, could be consigned when imported from abroad, thereby becoming Netherlands imports and subject to the export prohibitions;
2. Where goods arrived in Holland in transit and were sent to Germany, the Netherlands Government would deduct that amount from the quota to which Germany might be entitled under the proposed restrictions.

This meant in effect that as transit goods would not be consigned to the Netherlands organization in question they could be stopped by the Allied contraband control before they reached Holland.

Thus it seemed that on these two questions there would be fairly plain sailing. A third question, however, caused far greater difficulty. This was the problem of processing, where the position was somewhat different from that in Belgium. The Netherlands imported raw materials which were passed to Germany for processing, the finished article being returned to Holland; the materials included rubber, textiles, hides and skins, and certain metals such as copper, tin, nickel, etc. As in other negotiations where this problem arose the Ministry's chief concern was not the danger that materials would be diverted to Germany's use, but the valuable foreign exchange that she would continue to earn. The matter was first raised seriously by the Dutch at the meeting on 28th October, and it was to prove the most knotty point in the discussions during the next three months. The Dutch promised that if Great Britain would agree to these exports the Netherlands Government would arrange that processed articles to the full extent of the exports were returned; if necessary the government would be prepared to demand that an instalment of the German finished goods should be sent to Holland before an equivalent quantity of the necessary material was sent out of the country.

'The Dutch . . . put their case extremely well and we couldn't help sympathizing with them,' wrote one of the British delegates, later. 'We promised to submit it to higher authority, but we held out no hope whatever that it would be accepted.'

During the first half of November detailed discussions of the A and B lists took place, and the Dutch were asked to find out their government's definition of 'normal trade' and the territory which constituted 'Germany'. They were also asked whether the Netherlands Government proposed to grant to Germany through the Netherlands/German clearing any credit facilities which were not available and utilized at the outbreak of hostilities.

The question of processing produced, however, an almost complete deadlock. Sir Nevile Bland believed that the Dutch would be ready to agree to almost anything in return for a satisfactory arrangement

on this point. Dr. Hirschfeld was sent over to deal with the matter, and pressed his government's view strongly at a meeting of the delegation on 15th November and at a private interview at the Ministry on the 16th. He explained that there was a revolving credit of 140 million florins granted by treaty in 1920 by the Netherlands Government to private German industries and guaranteed by the German Government. Under the terms of the treaty the purchase of raw materials had to be effected through Netherlandic trade channels and goods from overseas bought on account of this credit had to be transported by Dutch ships. He pointed out that export trade to Germany had fallen by forty per cent., and the port activity of Rotterdam by seventy per cent., and that the failure of Holland to supply the necessary raw materials to Germany for processing would not only cut off the Dutch import from Germany of semi-manufactured products and react seriously on Dutch economic life, but inevitably mean the freezing (or the total loss) of the 140 million florin credit (approximately £17.5 millions).

The Ministry was strongly inclined to give a plain 'No' in reply; but while it seemed unthinkable that the Dutch should be given a free hand to send rubber, copper, and so on into Germany, it seemed just possible that it might be advisable to agree in a few instances. It was also necessary to keep in line with the arrangements made with other neutrals. At this stage it was being suggested that Belgium should be allowed to send 12,000 tons of copper annually to Germany; it would hardly seem logical to allow this amount to go there for Germany's sole use, and to refuse to allow the Dutch to send 15,000 tons for Dutch use. Dr. Hirschfeld had also been asked whether it would meet the case if the manufactured goods needed by Holland were supplied by the Allies, or by the United States. He had not been willing to give a definite reply to this suggestion, but it seemed that there might be a possibility of some arrangement along these lines. It was, furthermore, necessary to keep in line with the French, and in general it seemed probable that some concessions to neutrals on the question of processing would have ultimately to be made.

Sir Frederick Leith-Ross accordingly replied to Dr. Hirschfeld in a private letter on 17th November which left a slight opening for further discussion. A memorandum communicated to the Netherlands legation on 21st November said that the possibility of exceptions might be considered.

By now it was evident to both delegations that no further progress could be made for the time being. The Netherlands delegation had had no instructions whatever from its government since the beginning of November. Discussion as to the composition of A and B lists had been carried as far as possible, but the Dutch delegates were

unable to say whether their government would consider the possibility of 'accords spéciaux' or not. The British had virtually refused to agree to the import of raw materials for processing in Germany, but had not been able to secure figures as to the quantities of material involved. The Dutch delegates proposed therefore to return to The Hague; their departure was first of all delayed for two days by their government, and then the interruption of the Ostend services by the German mine campaign delayed them further, and they did not reach The Hague until about 2nd December.

Throughout December the Netherlands Government made no move to continue the negotiations. The *Algemeene Nederlandsche Invoer Centrale* (A.N.I.C.) had, however, been set up under the Emergency Import Act of 1939, and on 16th December the Ministry was told that it was now functioning, and was asking for declarations. On 6th December Sir Nevile Bland was instructed to ascertain the government's intentions; he replied on the 8th that Dr. Van Kleffens had replied that 'the apple was not yet ripe on this side'.

It was, of course, easy to suggest reasons for this delay and increasingly difficult to avoid the suspicion that the Dutch intended to procrastinate as long as possible, and to refuse signature in the last resort. This might be due to fear of political repercussions with Germany, or to the fact that a highly lucrative trade would be cut off when the agreement was signed: there was evidence enough on both heads. German pressure on the Netherlands—as on other neutrals—took various forms, and there was a renewed outflow of threats and reproaches at this time, following the British embargo on German exports. The Berlin correspondent of the *Telegraaf* wrote on 8th December that the German complaints could be stated briefly in the words, 'the Netherlands tolerates a British guardianship over its economic policy and knuckles down to British blackmail, thus relinquishing a part of its neutrality'. German official circles were saying that 'Germany will not take this passive attitude of the Netherlands with regard to the British blockade measures lying down'. The correspondent noted that this warning had been greatly strengthened in the German press during the past few days. Diplomatic steps by the Netherlands legation in London against the diversion of Netherlands shipping were waved aside by the Wilhelmstrasse as 'paper protests' of no value; it appeared to be expected that the Netherlands should run its ships—under convoy if necessary—in defiance of the British blockade. The British side of the picture showed that the Dutch had in fact been doing everything possible during the previous four months to increase their stocks and dodge the contraband control; a recent practice was to consign whole cargoes to the government. The danger of this accumulation of stocks was particularly serious in the case of mineral oils; the total

stocks of these at the beginning of November were estimated at 700,000 tons, and it was anticipated in mid-December that they would have reached 800,000 by 1st January.

Meanwhile the 'counter-blockade' continued. The shortage of flax was now becoming serious, although for nearly the whole of November the British legation took no steps in this matter at all, in spite of urgent messages. The Ministry of Supply finally got tired of waiting and decided to abandon the purchasing of flax seed through ordinary commercial channels, and instead to make purchases itself, if possible direct from the Netherlands Government. During December and January the Dutch restrictions remained very embarrassing; the official Dutch explanation was now that pending the conclusion of the war-trade agreement the Netherlands Government had undertaken, in order to meet British wishes, not to issue export licences in respect of a range of articles 'and from this rule no exemption can be made'. This applied even in the case of goods allowed to go to Netherlands ports under a hold-back guarantee (*cf.* pp. 91-2).

The stiff tone of many Dutch communications to the British Government was evidence of considerable irritation at the working of the contraband-control system; it was also, however, due to a desire to demonstrate to the public in Holland and to the German Government that the most exacting standards of neutrality were being maintained. Immediately after the suspension of the negotiations in London on 21st November an official Netherlands statement on British economic warfare was made to Reuter. It was reproduced in *The Times* in the following words.

The cruel character of the British measures for Holland admits of no doubt. It is manifest how much damage is caused when ships are sometimes left for weeks in British ports owing to the disorganization of the British control service. This means an unbearable expenditure load for the shipping companies. A neutral government cannot let itself be forced to make declarations that goods aboard its ships shall not be re-exported in any form to any country.

British policy not only violates Holland's ideas of neutrality, but also the fundamental ideas of international law, and will have the most harmful repercussions on Britain's own trade. If Holland is no longer able to supply Germany with foodstuffs and raw materials in the same quantities as previously, she will be obliged, in conformity with her neutrality, to withhold the articles mentioned in the same way from England.

The Netherlands minister in London gave a formal explanation at the Foreign Office on 23rd November that this was not an official communiqué from the Netherlands Government, but merely the statement of an unnamed official. Some disclaimer was obviously necessary in view of the tone of the statement, and the considerable

ignorance of the real character of the British proposals which it displayed. It was also true, however, that the great majority of Netherlanders regarded neutrality as the panacea for all ills, as the best weapon for demolishing the German invasion bogey; 'strict neutrality', as Bland wrote on 29th January, 'remains as strongly as ever the keystone, although it may one day become the millstone, of Dutch foreign policy'.

The Ministry was not prepared to let matters drift. At the end of December proposals for forcible rationing were being discussed in the department. Stocks in Holland were by this time so large that it was believed that the amounts which would be allowed to go into Holland under rationing would be very near zero. However, on 28th December Bland was told that the Netherlands delegation would return to London early in the New Year.

The Ministry was informed somewhat abruptly, on 2nd January 1940, that the delegation was returning to London on the following day and wished to resume negotiations at once. Conversations began on the 4th, and continued until the 16th, after which there was a fortnight's delay while the Netherlands delegates waited for instructions. When discussions were restarted on 30th January progress was rapid, and agreement was reached between the two delegations early in February. After this, representatives of the Ministry, who were in Paris, were able to communicate the texts of the draft agreement to the competent officials of the Quai d'Orsay on 8th February.

During January numerous points of detail and drafting were examined and more or less satisfactorily settled; these included the composition of lists A and B, the composition of a 'free list' of goods in regard to which no guarantees were offered by the Netherlands, the phraseology of the draft declarations of the two governments, and similar points. But no solution had been found of the two really fundamental difficulties, namely, processing and the Dutch 'counter-blockade' against British goods. The two problems were closely linked—not merely because they offered an opportunity for reciprocal concessions, but because the British were finding the uniform application of the Dutch export restrictions to both belligerents highly awkward. Thus the total prohibition of the export of mineral oils in all forms to Germany (and therefore to all belligerents) by inclusion in list A was regarded by the British as a *sine qua non* of the Dutch, and indeed of any, war-trade agreement. But the Pernis factory near Rotterdam was under contract to supply the Air Ministry with 50,000 tons upwards of 100-octane fuel. This was one of the main British sources of supply at the time, and was regarded as highly important in the maintenance of air superiority. One British suggestion was that octane should be made a special tariff item and placed on the free list; but, as a British official remarked, the Netherlands Foreign

Office, intervening in these negotiations for the first time, 'not unnaturally rejected such flagrant discrimination'. To a further suggestion that pre-war contracts should be exempted from the export prohibitions the Dutch replied with the warning that German-Netherlands pre-war contracts, real or faked, would at once be put forward for every kind of key commodity. The Dutch were still being 'exceedingly tiresome' about maize starch (for which maize was sent to Holland from the United Kingdom), cocoa-butter (for which the beans were sent from British sources), and similar products. The lines of a comprehensive compromise were sketched at a meeting between the two delegations on 31st January. It had already been agreed that the mixed Anglo-French-Netherlands commission which was to interpret the agreement after signature should have referred to it every application by the Dutch for the export of goods for processing in Germany; the British now proposed that applications for the waiving of export prohibitions on goods sent to Holland for processing should also be considered by the commission. Thus 'every case would be referred to the commission and if the Dutch representatives refused our oil we should refuse their brass taps—the demand of the Dutch for brass taps made in Germany appears insatiable'. Mr. Cross agreed to this proposal on 2nd February, and the Dutch delegates then secured the agreement of their government.

With the clearing up of this point the major problems were solved. The decisions arrived at on certain other points may be noted briefly. (1) The Dutch proposed that 'finishing' (for example, woollen yarns sent to Germany to be dyed and cotton cloth sent to be printed) as distinct from 'processing', should be allowed in the case of certain goods, which would not then be referred to the mixed commission. Ownership of the goods would remain vested in the Dutch exporters, and the total value would not exceed the 1938 figures of £16,500. The British agreed to this proposal. (2) List A goods could be exported to 'satisfactory' neutrals without restriction; list B goods could be exported in 'normal quantities' to belligerents and unsatisfactory neutrals. (This distinction between satisfactory and unsatisfactory neutrals was not made in the Belgian agreement.) In January the British had proposed the inclusion of tea and tobacco in list B; the Dutch made out a good case against this proposal, and it was agreed to drop it as part of the general plan of settlement outlined in the preceding paragraph. (3) The so-called 'free list' caused some confusion. It was not until a meeting between M. Lamping and Sir George Mounsey on 12th February that a fundamental misunderstanding on this point was detected. The Dutch had assumed that this list consisted of goods which would be allowed to go through to their destinations without interference, and they accordingly took exception to a draft statement which said that the

British Government would be unlikely in practice to obstruct their passage unless there was clear evidence of enemy destination or unless the quantity or nature of the goods was abnormal, or unless there were other exceptional circumstances. It was explained that in the British view the 'free list' was merely 'the assemblage of goods in regard to which no assurances have been received from the Dutch Government, and in regard to which we are therefore free to exercise our belligerent rights'. The concession represented by the proposed formula was offered merely because the goods on this list were for the most part of little importance. The Dutch delegates did not want to adopt the alternative course of abolishing the free list and discussing which commodities should go on the A or B lists, and they finally accepted a slightly modified form of the original covering formula. (4) The list of 'satisfactory' neutrals consisted of Spain, Portugal, Belgium, Sweden, Iceland, Norway, Greece, Eire, and extra-European countries; in other words, it was limited mainly, as far as Europe was concerned, to neutrals which had signed war-trade agreements. The Dutch pointed out that it might well be to the Allies' advantage if they bought foodstuffs and raw materials from certain 'unsatisfactory' neutrals—in the Balkans, for instance—and thus diminished the amounts available for Germany. They could, however, pay for such imports only by exporting goods in return. Mr. Cross accordingly agreed that exceptions could be made to the arrangements applicable to unsatisfactory neutrals, subject to the previous consent of the Anglo-French-Netherlands Commission.

The signature of the agreement was, however, delayed by unexpected objections from Paris. On 17th February, a vigorous protest was received from M. Morand, who objected to the vagueness of the notes and the danger of Dutch exports to Belgium and Sweden being sent on to Germany. It was not perhaps a coincidence that at this moment the British did not see eye to eye with the French about the latter's Swiss negotiations. A British reply on 22nd February disagreed as to the vagueness of the agreement: the neutral countries to which unrestricted export of goods on lists A and B was allowed had either concluded war-trade agreements or were otherwise controlled by the Allies. The British note went on to show that the Belgian and Swedish agreements left no serious loophole for export to Germany. The French also objected to the provisions about processing; in reply the difficulties arising out of the 'counter-blockade' were explained, and it was agreed that this concession to Holland need not prevent the French from opposing a similar concession in the agreement with Switzerland.

Dutch negotiations in Paris were at first without result, and the Ministry became alarmed lest the agreement might fall through altogether. Then on 20th March it was learned that all the French

demands had been met by the Netherlands Government, and the initialling of the documents was arranged for the afternoon of 21st March. Three hours before the initialling was due to take place the French demanded: (1) that the Dutch should first inform the Allies of the exact amount of mineral oil stocks that they considered adequate; (2) an assurance that 'the destination of goods consigned in transit through Holland' could not be changed en route to or on arrival in Holland; (3) a satisfactory declaration on the subject of the reservation of belligerent rights. The British were completely mystified by the third demand, as, although the wording of the declaration given to the Dutch on 1st March (see below) was not identical in wording with that given to the Belgians, the substance and effect were the same. In fact, the Contraband Committee had declared its intention of not differentiating in the treatment of goods destined for Belgium and Holland respectively. The British considered that only the first demand was legitimate, although irrelevant to the war-trade agreement; they considered also that further delay in the initialling would be unwise. The documents were therefore initialled on 21st March.

The delay during February and March allowed time for certain changes to be made in the original draft. In its final form this agreement, like the Belgian agreement, consisted of unilateral declarations by the Netherlands Government covering two lists of commodities, A and B. Whereas, however, the Belgian agreement prohibited the export of A commodities to all destinations, the Netherlands agreement permitted exports to 'satisfactory' neutrals (Spain, Portugal, Belgium, Sweden, Iceland, Norway, Greece, Eire, and extra-European countries). The export of B commodities to belligerents and unsatisfactory neutrals was permitted up to 'normal' pre-war figures (i.e., 1938 Netherlands trade returns). The agreement provided for the setting-up of an Anglo-French-Netherlands Mixed Commission, to decide questions arising out of the agreement and make any necessary changes in the lists. The commission could also authorize exceptions to the arrangements concerning unsatisfactory neutrals. Trade with satisfactory neutrals remained unrestricted. The importation of A and B goods into Holland was permitted only if (1) an import licence covering them was issued by the *Algemeene Nederlandsche Invoer Centrale* (A.N.I.C.), and (2) they were consigned directly to A.N.I.C. All goods consigned to A.N.I.C. would fall automatically under the export prohibitions, and could not be declared to be in transit, or diverted to another destination. These regulations applied similarly to goods landed in Holland and placed in bond or entrepôt. The Netherlands Government further agreed to disclose the name of the ultimate consignee of goods consigned to A.N.I.C. if requested to do so by the Contraband Committee. Goods

in transit through Holland would not be consigned to A.N.I.C., but the Dutch undertook to see that the declared destination would not be changed.

A clause in the British note specifically reserved the 'recognized rights of belligerents as regards the seizure of contraband of war'. A declaration had, however, been sent to the Netherlands Government on 1st March 1940 to the effect that, although they reserved 'the right to exercise contraband control over goods not inscribed in either of the two lists', they were unlikely to obstruct their passage unless: (1) the quantities were abnormal or their nature unusual, or (2) there were 'unforeseen and exceptional circumstances which may include clear evidence of enemy destination'. Great Britain would be under no obligation to issue navicerts for goods consigned to Holland or to grant export licences for exports from the United Kingdom. The agreement provided for the sending of certain A commodities from Holland to belligerent countries for finishing (dyeing, printing, etc.), the goods remaining all the time under Dutch ownership. Raw materials, listed or unlisted, could be exported under the agreement from Holland to belligerents or vice versa for processing, to be returned subsequently to the exporting country. It would, however, be necessary to obtain first the consent of the Anglo-French-Netherlands Mixed Commission.

The French continued to be 'tiresome' and would not agree to the signature of the agreement. The Dutch decided to proceed to Paris to discuss the difficulties. Meanwhile, Royal Netherlands decrees of 3rd, 4th, and 5th April put the agreement into force on 8th April. Reaction in the Dutch press was favourable. As a result of the discussions in Paris for the conclusion of a Franco-Netherlands war-trade agreement, Switzerland and Turkey were added to the list of satisfactory neutrals and Sweden and Norway deleted. The British agreed to this. Minor alterations were also made to the lists. On the occupation of Denmark by the Germans, the British informed the Netherlands Government that, although under the war-trade agreement already initialled, Denmark was classed as an 'unsatisfactory' neutral and as such was entitled to her pre-war quota of list B goods, the British could not, in the new circumstances, agree to the *de facto* extension of the German quota in this way, and that exports to Denmark would be included in the quota to Germany proper. The British made it clear that refusal to do this would inevitably lead to the terminating of the agreement by Great Britain. No answer was received by the beginning of May.

Nevertheless, it appears that the Dutch were co-operating to the fullest extent in carrying out the terms of the as yet unsigned agreement, and they seemed indeed to 'be going out of their way to prevent any breach' of the agreement. They had still not replied to

the British ultimatum regarding exports to Denmark when Holland was invaded on 10th May. The agreement was therefore never formally signed.

(iii)

Switzerland

It had been agreed in the pre-war discussions that the French should take the initiative in the negotiation of a war-trade agreement with Switzerland, and that they should supervise its operation. In the opinion of the Ministry the French conduct of these negotiations was somewhat maladroit, too inclined at some stages to haggle over non-essentials, too ready at others to throw away major advantages. Although the Swiss showed themselves to be reasonably accommodating, the agreement was not signed until 25th April 1940. The French and Swiss were, as it happened, ready to sign on 19th March, and the further delay of over a month was due to the Ministry's insistence on certain additional safeguards which to the French seemed evidence that the British, rather than themselves, were the real obstacles to progress. The fact is that, although the blockade issues were no more intractable than those of the other war-trade agreements, there were related problems which made these Swiss negotiations particularly complicated.

As a landlocked state, poorly supplied with native raw materials and territorially adjacent to both France and Germany, Switzerland presented some peculiar problems in contraband control. She was deficient in indigenous supplies of coal and iron, textiles, cereals, and fertilizers. She became almost completely dependent on Germany after the fall of France for the coal and iron, imported fertilizers and seeds, machinery and tools on which her economic life depended, but even in 1938 Germany was her largest customer and supplier. France was the next largest exporter to Switzerland, followed by the United States and then by Italy and Great Britain. After Germany, Great Britain had been before the war the largest importer of Swiss goods, and of the European countries France, Italy, Spain, and Portugal came next. It at once became clear after the outbreak of war that many of Switzerland's traditional sources of income—the tourist traffic and her luxury trades—would be hard hit, and that she would have to place greater reliance in her export trade on production which served the war needs of the belligerents. Both sides, however, needed Swiss manufactures of war material and of technical instruments and machinery—guns, ammunition, and also watches, fuses, etc. The Swiss were able, in the winter of 1939–40, to use the urgent French need for Swiss armaments as a bargaining weapon in the war-trade

negotiations, with the result that the *Ministère du Blocus*, hard pressed by the British to stand firm on blockade matters, was equally hard pressed by the French supply interests to make concessions.

The British Government was also negotiating simultaneously with the Swiss on supply and financial questions, but did not find that this caused any particular confusion. Anglo-Swiss trade was still regulated by a treaty made in 1855, in spite of attempts to reconsider the situation since 1937. The Swiss had taken the initiative in September 1938 in war-trade discussions, explaining to the Foreign Office their anxiety to make arrangements in advance for the transport by sea and across the territories of their continental neighbours of the foodstuffs which they would require in the event of war. In November 1938 a draft war-trade agreement was forwarded to the British minister in Berne, and there were further discussions when M. Erwin Matter visited London in March 1939. No definite commitments or promises were made, however, on the British side beyond an assurance to the Swiss that if they hired neutral tonnage to cover about one-third of their total shipping requirements, the British Government would not requisition it, providing, of course, that the ships and their cargoes were not used to assist the enemy. In subsequent discussions it was made clear that these ships could not claim exemption from contraband control. The war-trade proposals of November 1938 had been on the usual lines: the Swiss would be asked to undertake not to export to Germany specific products or commodities produced from imported raw materials, and to limit to figures to be agreed their export of commodities produced in Switzerland from domestic materials or resources; Britain would be prepared to take from Switzerland guaranteed quantities of certain commodities, and 'to save inconvenience' the Swiss Government would be invited to restrict their imports from all sources to global figures corresponding to their imports over the past three years, less any exports or re-exports to Germany, and to furnish guarantees that none of the goods admitted would be re-exported to Germany. The British legation in Berne queried the wisdom of some of these points, and advised that more precise lists should be drawn up; no further progress was made before the outbreak of war.

By this stage it had been agreed that the initiative with regard to blockade questions should be taken, in the case of Switzerland, by the French. The British Government retained, however, an active interest in the blockade negotiations, and the parallel negotiations with the Swiss over general trade and financial questions were carried out at the same time through the Board of Trade and the Treasury respectively. These latter negotiations fall outside the scope of the present work, but it may be noted that the strict import control which the United Kingdom had set up vitally affected certain Swiss exports such

as watches, silks, and embroideries, and as silks and embroideries were seasonal goods, there was an unhappy prospect for the Swiss of capital losses, particularly on pre-war contracts. On 2nd September the Swiss Government made all exports subject to special licence, and on 22nd September a provisional Franco-Swiss agreement was signed in Berne regulating the exportation and transit of goods from France to Switzerland and vice versa, pending the negotiation of a definite agreement. At the same time a secret arrangement was made in the form of an exchange of letters with regard to the export from Switzerland of arms and ammunition ordered by the French authorities prior to 2nd September. This included a provision that the Swiss authorities should make available the necessary staff of workers both for the Oerlikon Works and their sub-contractors. It was clear that the early conclusion of an Anglo-Swiss agreement was also necessary (the Admiralty, for example, had an important contract with Oerlikon which was threatened by the calling up of Swiss workers for military service, and the clause on this point in the Franco-Swiss agreement had, indeed, been suggested by the British minister for this reason). Discussions on transit questions followed in Paris, and meanwhile, during the greater part of October, negotiations continued in Berne over the text of an agreement which would extend the existing Franco-Swiss agreement of March 1937, and include clauses preventing contraband goods from reaching Germany. On 31st October the draft of an agreement relating to blockade questions was presented to Dr. Hotz, Director of Commerce of the Swiss Department of Public Economy, who made it clear at once that his government would find it difficult to accept the French text. Discussions began in Paris on the blockade issues on 14th November between French and Swiss delegates, with the British commercial counsellors at Berne and Paris, Mr. Setchell and Mr. Irving, holding a watching brief for the Ministry of Economic Warfare.

In the meantime the Swiss had been negotiating with Germany, and a trade agreement for the duration of the war was concluded with the Reich on 24th October 1939. Dr. Sulzer, head of the Swiss War Economic Organization in Berne, arrived unexpectedly in London on 2nd November as leader of an economic mission to negotiate with the British authorities, the other members being Professor Keller and M. Koch. He called on Mr. Cross on 6th November, and explained that, under the German-Swiss agreement, Swiss exports to Germany would be limited to approximately half of the value of Swiss imports from Germany. The balance of German exports to Switzerland would be devoted to repayment of debt. Swiss exports to Germany would not under the agreement be increased, but would be limited to the agreed level, which approximated to a normal peacetime level. Dr. Sulzer anticipated that Germany would find herself

unable to maintain her exports to Switzerland, and the consequence under the terms of the agreement would be a proportionate diminution of Swiss exports to Germany. The point that he was particularly anxious to emphasize was the desire of his government to maintain its economy by being allowed to export manufactured products to Germany containing raw materials imported from other countries, and he said that this request would be restricted to goods the value of which consisted to a very large extent of the Swiss labour that had been put into them. One-third of the Swiss population was dependent upon the export trade and dependent almost entirely on imported raw materials.

Mr. Cross 'indicated what a very difficult matter he was raising', but the Swiss knew that they had a bargaining position of some strength. Not only were the Allies anxious to secure their own deliveries of Swiss armaments and manufactures, but it looked very much as if these would contain considerable quantities of imported German material. After the Paris negotiations had been in progress for three weeks, the French embassy in Berne discovered that the Swiss Government had imposed restrictions on certain French imports and on certain Swiss exports to France required for national defence. This was taken in Paris as a Swiss attempt to exert pressure—to 'demonstrate Swiss dissatisfaction'—and the French refused to continue the negotiations until Dr. Hotz had promised, on 8th December, that the restrictions should be unconditionally withdrawn. The British Government made it clear to Dr. Sulzer that it did not wish to discuss the blockade issues in London, but negotiations continued between the Swiss mission and the Board of Trade, the Service Departments, the Ministry of Supply, and the Treasury on general trade and credit arrangements between the two countries. During December the British Government also made it clear that it could not accept completely the two main Swiss proposals, (1) that Britain should allow the pre-war contracts affecting the Christmas trade, valued at about £1½ millions, and (2) that both countries should agree to maintain imports and exports on the basis of 1937 or 1938, whichever was more favourable. But some immediate concessions on watches, bolting cloth, and the 'improvement' trade, valued at £400,000 or more, were offered, and at the request of the Foreign Office a concession worth an additional £50,000 was under discussion. By this stage some apprehension was beginning to be felt in official circles in London lest French policy in the Paris discussions should wreck the commercial agreement which the Board of Trade was negotiating. The proposed imports of the Admiralty and the Ministry of Supply from Switzerland were approaching £6 millions in value, and it looked at one point as if the French might impose conditions which would cut off these Swiss exports.

This proved, however, to be a false alarm; during November and December the differences between the Swiss and French terms for the blockade agreement were beginning, although all too slowly, to be whittled away. The main points of the original French proposals of 31st October, which took the form of a draft declaration to be made by the Swiss Government, may be translated as follows.

1. The Swiss Government have placed a strict control over the export and transit of goods of chief importance.
2. Subject to paragraph 3, no permit for export or transit is granted for the principal goods necessary for national defence or the subsistence of the population (list in Annex I). Such goods when imported are, therefore, exclusively designed for internal consumption.
3. Nevertheless, special agreements may be made between Switzerland and the belligerents allowing the export of certain goods, mentioned in Annex Ia. Such agreements would enable Switzerland to receive raw materials from a belligerent and to re-export them to the same belligerent in a manufactured state. Trade in the products mentioned in Annex Ia will continue up to normal quantities (*courants normaux*) with certain neutrals (extra-European, and those which had concluded a war-trade agreement with France and England).
4. The export to belligerents of goods mentioned in Annex II is authorized only up to normal quantities.
5. The Swiss Government will furnish the French Government with monthly statistics of Swiss imports and exports to all European destinations in respect of goods mentioned in Annexes I, Ia, and II.

The terms are, however, of interest mainly as an indication of France's initial position; there were a considerable number of changes in the basis of negotiation, and the Swiss disputed most of the French proposals. The main points of dispute concerned the lists of goods to be accorded 'courants normaux'; the recognition of 'good' and 'bad' neutrals and the supplies to be allowed to them; the year or years which were to form the basis of calculation (1936, 1937, and 1938, or merely 1938); the *accords spéciaux*; and the list of goods the export of which was to be totally prohibited to Germany. The Swiss insisted that they must be allowed to supply manufactures of cotton, rubber, wool, and so on to Germany in order to pay for their imports of raw materials, but to this the French would not, at this stage, listen. There was also considerable argument over the Swiss 'passive improvement' trade with Germany (i.e. the export from Switzerland to Germany of Swiss material for improvement and eventual return). The Ministry objected to this partly because of the danger of retention of the goods by Germany, mainly, however, because of the drain of Swiss currency to Germany. It was, however, prepared to bargain on this point.

After a month of inconclusive argument, M. Henri Alphan, of the *Ministère du Commerce*, the head of the French delegation, proposed on 21st December that negotiations would be expedited if four lists were drawn up on the lines of the Belgian agreement, namely, List 1 (total prohibition of Swiss exports), List 2 (normal volume), List 3 (items in respect of which special agreements could be made with a view to reducing Swiss exports to Germany on an agreed quota), and List 4 (no restrictions on export). The Swiss accepted this plan, and it was agreed that the negotiations should be transferred to Berne, where the lists could be discussed with the Swiss experts after preparation by the British commercial counsellor and his French colleague there. In the meantime the Swiss trade agreement with Britain continued to be held up pending the conclusion of the blockade agreement.

During January 1940 good progress was made in Berne in drawing up lists on these lines, and, in the discussions of individual commodities, concessions and counter-concessions removed many causes of dispute. But the most difficult problem—the terms of the ‘special agreements’—remained. A visit of M. Alphan and M. Bousquet (representing the *Ministère du Blocus*) to the Ministry on 23rd January 1940 led to a reluctant British agreement that on political grounds the French desire for concessions to the Swiss must be accepted. The French made it perfectly clear that the most vital factor to them was now the question of armaments, and in return for a promise from the Swiss to supply greatly increased quantities of these to France, they were willing to give way on most, if not all, of the outstanding points of dispute. This meant that certain raw materials reaching Switzerland from Allied sources would be allowed to go to Germany in a semi-manufactured state, but M. Daladier himself had given his consent to this course. Although the British had their own armaments requirements from Switzerland, these did not appear to be so large as the French, and the British had been able to secure promises of delivery without giving anything away in the war-trade negotiations. One point on which the Ministry anticipated difficulties was rationing. As the Swiss were asking for a long list of imports of raw materials from Empire sources, it had been hoped that they would agree to some form of voluntary rationing; but rationing had not been suggested in the Belgian discussions, and it was the Belgian agreement which had, on the proposal of the French, been taken as a model. Another point of difficulty was ‘new trade’. The British had proposed a clause providing that where no trade existed, none should be commenced, but the Swiss had objected to this, and the Ministry itself woke up to the fact that the clause might prove a boomerang, as the Allies were hoping to secure munitions supplies from Switzerland. Other points about which the Ministry was anxious included the maintenance of the distinction between ‘good’ and ‘bad’ (or as

the Netherlands agreement called them, 'satisfactory' and 'unsatisfactory') neutrals in the special arrangements; the restriction of parcel traffic by post from Switzerland to Germany, which was reaching large proportions;¹ and the export of electricity from Swiss power stations to Germany, believed to amount to about 1,200 million kwh, equivalent to some 900,000 tons of coal a year if generated by steam.

The special agreements fell into two main groups: (1) those under which it was hoped to secure increased quantities of goods vital to the Allies, such as armaments for France and aluminium for the United Kingdom; and (2) those the object of which was to cut down exports to Germany of Swiss manufactures such as textiles, leather, and possibly machinery. The chief items concerned were hides and skins, rags for paper-making, cotton, flax, hemp, jute, silk, wool, rubber, nickel, aluminium, vegetable alkaloids, munitions for portable arms, precious stones for watch-making, copper, dynamos, and chassis weighing over 1,600 kg. The last four items were those in which the *Ministère du Blocus* was especially interested. There was a possibility that certain other items might be made the subject of special agreements. These were fresh fruit, fresh milk, cattle, iron ore, aeroplanes, chestnut and other similar extracts, fireworks, and linseed oil.

During February discussions continued, primarily between the French and Swiss representatives, over the terms of the special agreements, and it was reported that, with the exception of cotton, the Swiss had, on the whole, received the French proposals fairly well. The Ministry was, accordingly, becoming increasingly anxious about the concessions that the French might be making, and about which it had very little information. At the end of the month the negotiations were transferred back to Paris, and on 28th February the British representatives had a meeting with the French about the points still at issue. The British wished to obtain French acceptance of a new draft of the declaration, setting out the general principles of the agreement, and also to find out, and discuss, the principles on which the French were basing the special agreements. They came to the conclusion that the French had none, although the final negotiations were due to begin on the following day. At the meeting, which began at 5.30 p.m., the French seemed prepared to discuss only outstanding points in the lists apart from the special agreements, and when they were asked about the latter it seemed clear from their reply that they were thinking solely about armaments. They intended to withhold signature of the war-trade agreement until the Swiss had agreed to an exchange of notes covering, to the satisfaction of the French, the question of deliveries of armaments to France. The fact was that while

¹ A Swiss decree of 22nd February 1940 brought postal packets of a maximum weight of 2 kilos, which had hitherto been exportable without special authorization, under export-licensing control after 1st March.

the British had separate negotiations with the Swiss under which they could bargain on the question of armaments, the French had no such weapon. The British delegates, therefore, accepted without demur the French plan of using the blockade negotiations for bargaining purposes.

They were, however, 'horrified' over some of the other French ideas. Thus, normal trade was proposed for copper, which would mean an export of approximately 1,500 tons of copper manufactures to Germany a year. A meeting with the Swiss took place on 29th February, and sub-committees were formed to deal with the three main groups of special commodities—armaments (including iron ore and copper), textiles, and agricultural products. In the discussions which followed agreement was reached in some cases quickly enough, but there were again considerable differences between the French and British viewpoints on some of the commodities.

In the armaments group, in so far as matters of blockade were concerned, it was agreed that all armament items should appear on the free list.

In the case of copper, complicated proposals were worked out by the British representatives, agreed to by the French, and accepted in principle by the Swiss, subject to minor alterations. Fifty per cent. of normal export to Germany was agreed in the case of copper screws (52 tons in 1938) and normal export of electric cables (47 tons in 1938); in the case of raw copper, copper scrap, and sundry copper manufactures, there was to be total export prohibition to Germany, normal trade with 'bad' neutrals, and free trade with other countries.

The French views about iron ore seemed 'quite incomprehensible' to both the British and the Swiss. The French declined to allow the Swiss to export more than the 1938 quantities of iron ore to Germany. The total export was not likely to exceed 300,000 tons a year of low-grade ore, and it seemed that the Swiss would agree to 250,000 tons. The total Swiss export to Germany in 1938 had been 126,000 tons. The essential point was that the Allies were unable to supply, and Switzerland was unable to manufacture, the considerable quantities of pig iron and steel which the Swiss munition factories required for the vital contracts which the British and French supply departments had placed. Switzerland would therefore have either to purchase supplies from Germany and pay for them in foreign exchange, or supply the low-grade Swiss iron ore which the Germans were still willing to take. It remained to be seen, of course, whether Germany would continue to supply iron and steel which would be used for Allied munitions, particularly as Germany had now wiped out her indebtedness to Switzerland in her clearing account. The iron ore problem remained unsettled for some weeks. On 4th March, after an hour's discussion, the representative of the *Ministère de Blocus* hinted

that his government might be prepared to take a less firm attitude, but the Swiss remained irritated by the whole proceedings; they claimed that the French had already in the previous December promised not to raise difficulties over the Swiss export of iron ore to Germany.

It appeared to the British that the negotiations had been no less detrimentally affected by the French attitude towards agricultural products. The Swiss attached great importance to these, not only because they were 'produits du sol', but because there were important internal political questions involved, agriculture being in receipt of large subsidies. On 29th February the French had objected to the Swiss proposal of a maximum annual export to Germany of 36 million litres of milk (as against almost nil in 1938), but had promised that the Allies would themselves buy large quantities of fresh milk from the Swiss. They had also hinted that the Allies would take an additional 10,000 tons of cheese, on condition that Switzerland reduced her normal exports to Germany (just under 4,000 tons) by fifty per cent. The French also objected to the Swiss demand to continue the export of 10,000 animals a year to Germany, and the Swiss had argued rather vigorously on this point; nevertheless, it had appeared that the Swiss would be 'reasonable' and would prefer to sell to the Allies if the prices were right. When the sub-committee met on 2nd March, the Swiss argued their case, the French expert promised to secure instructions on the points raised, and then vanished! It turned out later that he had gone away on ten days' leave without communicating with anyone. But it seemed that there might be a rational excuse for his absence, for the French subsequently discovered that, far from their being able to implement the promise to pre-empt large quantities of Swiss milk and cheese, there was, in fact, a large surplus production of these commodities available in France.

It was also found impossible to reach agreement at this stage over textiles. The British had proposed to the French on 20th February that the Swiss should be allowed to export annually to Germany 1,500 tons each of cotton yarns and cotton tissues, 100 tons of woollen tissues, and no woollen yarns. In each case, however, there could be normal trade with 'bad' neutrals, and free trade with 'good' neutrals. The French gave these figures to the Swiss, and later promised to recommend to the British certain increases (cotton piece-goods, 1,800 tons; wool yarns, 75 tons; wool tissues, 125 tons), which the British were not prepared at this stage to accept.

There was some confusion between the British and French over the draft of the declaration which the Swiss were to be asked to make. The British draft was very fully discussed by the British representatives with M. Alphand, of the *Ministère du Commerce*, and two representatives of the *Ministère du Blocus*, on 2nd March. M. Alphand objected

to certain points, such as a proposal (about which there had been provisional Anglo-French agreement in June 1939) for the initiation of common buying and chartering of tonnage; he thought it too favourable to Switzerland, and in any case it would involve the setting-up of commissions in Berne, London, and Paris, which would be impracticable as far as Paris was concerned. The British felt that they must accept this objection, in view of the limited capabilities of the French departments concerned. There were also certain other modifications, with which the British delegates agreed, but when M. Alphan's final text was handed to the British representatives on 4th March it was found to be by no means a literal reproduction of what had been agreed two days before. The draft was revised at the *Ministère du Blocus* on 5th March, studied in London on the 6th, and put into a form satisfying the two Ministries on the 7th. All in vain, for it turned out that M. Alphan, apparently without being aware of these revisions, had in the meantime presented his original draft to the Swiss. Thus the Ministry had considerable grounds for alarm at the turn that the negotiations had taken between 28th February and 5th March.

The French agreed, however, on 11th March, to clear up the confusion over the texts of the draft declaration, and during the following week the French and Swiss arrived at understandings on most of the outstanding points in the lists, so that by 19th March they had accepted the text of the whole agreement, apart from the list of 'good' neutrals, and the figures for iron ore and cotton. The French hoped to sign the agreement on 21st March. The British were maintaining their figure—namely 1,800 tons—for cotton tissues, and the French were still demanding an export quota of not more than 150,000 tons for iron ore. The Swiss were by this stage prepared to accept 220,000 tons.

The Ministry, however, after examining the final texts, felt that it must still make objection to certain points. The first concerned transit through Germany. The agreement provided that goods subject to normal trade, and many goods subject to special agreement, could be exported freely to 'good' neutrals, and freely to 'bad' neutrals if the Swiss Government received assurances that the goods would not be sent on to a belligerent. This might lead to rubber tyres, copper goods, and so on being routed from Switzerland to the northern neutrals through Germany, where they might be seized or retained, and where, in any case, Germany would earn 'hard' currency.¹ The second objection was that the text merely stated that goods consigned

¹ Just at this time the Ministry heard from a reliable source that a contract had recently been placed with the Oerlikon Works by the Soviet Government for the early delivery of anti-aircraft guns to the value of £2 millions. The guns were to be routed through Germany, and it was said to be known to Oerlikon that they would not, in fact, reach the U.S.S.R.

to Switzerland would not be interfered with by the Allied controls 'providing they are not of enemy origin or ownership'. M.E.W.'s Black List Section objected to this on the ground that the additional words 'or destined for an enemy interest in Switzerland' had not been added. There were four other objections, admittedly of less importance. (1) The draft did not provide for subtractions from, as well as additions to, the list of good neutrals. (2) Parcel-post trade was omitted, contrary to the original intention. (3) There was no provision to cover the case of a failure by the holder of an import licence to import goods for which he had received an import permit. (4) There was no definition of 'Germany'.

These objections illustrated one of the main difficulties of the Ministry at this period. Profiting from the experience of the early months of the war, it wished to introduce safeguards on certain points which had been ignored in the earlier war-trade agreements, and it was natural that this tightening up of the terms should be resisted. Thus, the Swiss agreement followed the lines of the Belgian agreement, which had not prohibited transit trade; all that could be said here was that the Swiss agreement was less satisfactory than the Belgian in respect of the lists. Similarly the clause about enemy interest had not been included in the Belgian or any other war-trade agreement.

The Swiss delegation returned home on 21st March without signing the agreement; the French regarded the iron-ore and cotton figures as still unsettled, but insisted that they could not reopen any other questions. A long letter from Mr. Cross to M. Morand on 27th March nevertheless set out the Ministry's objections, and made it clear that it intended to maintain its points. On 25th March the Swiss decided to accept the figure of 1,800 tons for cotton tissues, but the French continued to stand firm on the iron-ore question for some days; finally, however, at the beginning of April, they proposed, and the Swiss agreed to, an export of 220,000 tons for 1940. The other British points were conceded in substance during the next fortnight, and particulars were telegraphed to London from Berne on 19th April. The Swiss accepted the definition of Germany contained in the Swedish agreement; they accepted also a provision covering business houses established in Switzerland which were directly or indirectly under enemy direction; they were very sympathetic on the question of routing and were prepared to lay down a system to ensure the arrival of goods to consignees. The British representatives still thought that it was preferable that the mixed commission which would be set up under the agreement should control all exports above normal, and the position was greatly simplified by the Swiss agreement to remove Sweden from the list of good neutrals. All the texts were signed on 25th April.

The agreement, shorn of non-essentials, consisted of a letter from the Swiss President to the British and French ministers in Berne, followed by the various lists of commodities. The Swiss undertook to ensure that raw materials and manufactures reaching Switzerland through the French or British contraband controls would, in fact, reach their destination and would not be re-consigned. All items on the Swiss tariff list were assigned to one of four categories. The export of all goods on List A was totally prohibited. The export of goods on List B1 was limited to the weights and quantities of such goods exported to each country in 1938; but these amounts could be freely exceeded in the case of all extra-European neutrals and of 'good' European neutrals; they could also be exceeded in the case of 'bad' neutrals on receipt of assurances by the Swiss Government that the goods and their products would not be further exported to a belligerent. The 'good' European neutrals were reduced, owing to the German invasion of Scandinavia, to Belgium, Luxembourg, Eire, Iceland, Greece, Turkey, and Portugal. List B2 contained those goods on which special agreements had been reached,¹ and the majority of these goods could be exported to neutrals on the same conditions as those laid down for List B1. All goods not mentioned in any list might be exported without restriction, except that no goods could be exported in the same condition (*'en l'état'*) as that in which they were imported. Arrangements were also made for the system of certificates of ultimate destination to be replaced by a system of certificates of guarantee issued by the Swiss authorities.

A mixed commission of British, French, and Swiss representatives was to be set up to supervise the execution of the agreement; the Swiss agreed to furnish it with monthly statistics with only three weeks' delay, to allow it to inspect all guarantees obtained by the Swiss Government from neutrals, and to furnish it with lists of both consignors and consignees. Goods on any of the three lists might be sent to a third country for improvement and return within the limits of

¹ The chief items may be summarized as follows. Total prohibition of export to Germany: rubber and rubber goods, copper and copper alloys, and copper articles, except screws, etc. (global export of 260 quintals), tanned hides and skins, silk waste, linseed oil. Fifty per cent. of normal export of rags and waste for paper-making, linen waste, silk floss. Special figures for various commodities: fresh milk (25 million litres), cheese *en meules* (55,000 quintals), animals (7,000 head), cotton waste (one-third of normal export), cotton yarn (15,000 quintals), cotton fabrics (18,000 quintals), woollen yarn (750 quintals), woollen fabrics (1,250 quintals), mica (single quota of 60,000 Swiss francs), iron ore (220,000 tons), iron scrap (seventy-five per cent. of normal export), chestnut extract (single quota of 900 quintals). Nickel and nickel goods to be exported to countries other than France and Great Britain only after authorization by the Mixed Commission. Aluminium and aluminium goods: free exportation, with the reservation that an increase above the normal export to Germany could take place only if the export to France and Great Britain were augmented by at least the same proportion. Normal exports to Germany of fresh fruits and berries, of motor vehicles weighing more than 1,600 kgs., and of parts for motor cars. Artificial silk waste and fibres: fifty per cent. of normal exports to Germany, with provision for Allied purchases; if the latter proved impossible, then export to Germany could be increased to the normal figure.

such trade in 1938. The commission would control the whole of this trade, and would decide whether the limits could be exceeded. Germany was defined in the agreement as including the territory of the German Reich and of any country occupied, controlled by, or allied to Germany, or at war with the United Kingdom.

On their side, the Allied Governments undertook to place no obstacles in the way of the free passage of goods to Switzerland through their territories, subject to the reservation of belligerent rights and to the condition that the goods were not of enemy origin or property or destined for firms in Switzerland which were directly or indirectly under the control or direction of the enemy. Where such firms were not on the Statutory List the detention would be immediately notified to the Mixed Commission for its consideration and recommendation before seizure.

The Swiss was the last of the major war-trade agreements to be signed, and it brought to an end the complicated, and at times exasperating, negotiations which the Ministry had had to carry out in triangular fashion with the French and with the Belgian, Netherlands, and Swiss authorities. The differences between the two Allies, which were in no sense acrimonious, offered some interesting contrasts in national temperament. The main cause of difference, however, was that the French authorities were able to give less weight to purely blockade considerations than the British. The under-staffing of the *Ministère du Blocus*, which was one sign of this, meant arrears of work and a lack of thorough study and preparation; this led in turn to some over-simplification of the issues, with a too-ready surrender of some points and a too-rigid insistence on others. So at least it seemed to the Ministry in London. In March, the Ministry had to tell the French, on the one hand, that it would not put up any longer with their objections to points in the Belgian and Dutch agreements, and, on the other, that it desired a stiffer attitude from them over the Swiss agreement. It must be remembered, however, that it had been made clear to the Ministry of Economic Warfare as early as December 1939 that the French found it necessary to subordinate blockade to supply considerations in the Swiss negotiations. Political considerations underlay the iron-ore deadlock in the last stages. The French admitted that the amounts involved were not large; but having asked Luxembourg and Sweden to reduce exports of iron ore to Germany, they felt that they could hardly allow Switzerland to double hers.

Very soon after the conclusion of the agreement the German attack on France began, and the maintenance of the blockade on the lines of the agreement became increasingly problematical. The new system of certificates of guarantee came into force on 10th May, the old system continuing up to 24th May in respect of outstanding ship-

ments and navicert applications. During May the 'en l'état' clause caused difficulties, as it was soon discovered that a strict application would cut Britain off from some useful supplies of German origin, such as dyestuffs, chemicals, drugs, and technical publications. Various subterfuges, which did not please the Trading with the Enemy Department, had to be adopted to meet the situation. It is curious to find that in May one of the Ministry's chief preoccupations was the growth of stocks in Switzerland, and that the remedy proposed was the removal of excessive stocks of key commodities to places of safety in France. Arrangements to receive certain machinery and tools was well advanced by mid-June, but the Swiss were showing a not-unnatural reluctance to co-operate. Another problem was the control of supplies to Switzerland through Italian ports. This trade had caused uneasiness from the start of the war, owing to Switzerland's treaty obligations to allow transit to Germany. By April 1940 there was a serious accumulation of Swiss stocks in Italian ports. On 11th May the British representatives at Genoa, Trieste, and Rome were told to take instructions from the British minister in Berne as to action with regard to detained and seized cargoes. The problem took a new turn with Italy's entry into the war on 10th June. For the next few days France was still in the war, and the normal course would have been for the Allies to insist on Swiss supplies passing through French ports, although the congestion of these ports would have complicated matters. The British authorities were also concerned at the non-arrival of supplies from Switzerland, particularly machine tools, Oerlikon guns, aluminium, and fuses; they hinted that facilities for Swiss trade would depend on Swiss ability to export to the Allies. The French, it may be said, distrusted this pressure on the ground that it might throw the Swiss into German arms.

There was, in fact, very little doubt that Switzerland was feeling German pressure at this moment. Dr. Hotz, the chairman of the Mixed Commission, visited Berlin in May to discuss amendments to the existing transfer and payments agreement. By early June it was known that Germany was demanding the prohibition of certain exports such as cellulose, timber, and certain metals, including steel, and that she would require equality of treatment in the Swiss export of armaments. She was also demanding compensation for her deliveries of coal, and threatening to cut off coal supplies if the coal were used in the manufacture of armaments for the Allies. German-Swiss discussions were expected to begin at Berne on 26th June, and in the flush of victory German demands were expected to be heavy. It is hardly surprising that the Swiss President told the British minister on 29th June that the war-trade agreement no longer corresponded with realities, although he was anxious not to denounce it or even embark on a textual revision. The minister telegraphed:

He therefore wished me to convey most urgent appeal to His Majesty's Government to give me wide powers to consent while present situation lasted to derogations of particular obligations imposed on Switzerland by our agreement. He repeated that he asked not for textual modifications, but that where particular items clashed with German demands, His Majesty's Government should in practice waive their rights.

On this note we can leave the story of Switzerland for the moment.

CHAPTER VI

THE BALKAN STATES AND THE BEGINNING OF PRE-EMPTION

(i)

Pre-War Plans

THE two weapons of contraband control and war-trade agreements, on which the Ministry of Economic Warfare placed its main reliance during the first phase of the war, were ineffectual in areas like the Balkans, where Germany's political and economic influence was particularly strong, and where the supply position was not greatly influenced by the contraband-control machinery. The Ministry hoped, however, to achieve its purpose by arranging for Allied purchases of key commodities available to Germany in these areas. In carrying out this policy it met many obstacles; during the first twelve months of the war results were meagre, and progress painfully slow.

The government had three possible reasons—which may be distinguished as supply, pre-emptive, and political—for embarking on a policy of purchases in neutral countries contiguous to Germany.

1. Supply: commodities might be needed for the British war effort, and if so they could be purchased by the Ministries of Supply and Food, in accordance with plans made before the war.
2. Pre-emptive: the aim of these purchases was to deny to Germany goods needed for her war effort.
3. Political: here the aim was to conciliate the country in which purchases were made, and to keep it out of Germany's economic or political orbit.

The three categories were not mutually exclusive, and it could usually be assumed that purchases made by the Ministries of Food and Supply would serve both pre-emptive and political purposes. In the same way 'political' purchases were usually pre-emptive in their effect, although tobacco (which was not contraband) was an exception.

The need for action was emphasized by the German Government's apparent determination to purchase all supplies available in adjacent neutral countries; during September 1939 German trade missions

were known to be active in all the Balkan and most of the Scandinavian capitals, and were promising to deliver German exports in payment for supplies.

Germany's economic preponderance in central and south-eastern Europe, and to a lesser extent in northern Europe, was due primarily to the fact that her economy and theirs were in many ways complementary; as a heavily-industrialized supplier of finished goods, it was convenient for her to look to these near neighbours for a market and for supplies of agricultural produce and primary materials, and they in turn were normally glad to find a market for goods which they could not easily dispose of elsewhere. Germany was, however, far less dependent on them than they were on her; in 1938 she took only about ten per cent. of her imports from them, while they sent to Greater Germany and Czechoslovakia about half their total exports. It was very much easier in this period for Germany to find other suppliers than for the south-eastern countries to find other markets. Thus her position (particularly in the Balkans) had a natural strength which was increased, but not created, by her deliberate drive for economic dominance in south-east Europe before the war. The following tables, which give export and import figures in sterling (£ millions), show the relative position of the future belligerents in 1938.

Exports: South-Eastern Countries, 1938
(£m. sterling)

To—	Bulgaria	Greece	Hungary	Rumania	Yugoslavia	Total
Germany . . .	8.22	7.03	5.77	5.71	6.82	38.28
Austria . . .		0.30	3.28		1.15	
Czechoslovakia . .	0.63	0.53	0.44	2.06	1.50	5.18
France . . .	0.21	0.53	0.40	1.01	0.28	2.44
Italy . . .	1.05	0.94	1.76	1.34	1.22	6.75
United Kingdom.	0.68	1.52	1.60	2.39	1.82	8.03

Imports: South-Eastern Countries, 1938
(£m. sterling)

From—	Bulgaria	Greece	Hungary	Rumania	Yugoslavia	Total
Germany . . .	6.41	7.66	4.99	4.91	6.08	33.67
Austria . . .		0.40	1.85		1.28	
Czechoslovakia . .	0.73	0.43	1.21	2.46	1.99	6.88
France . . .	0.45	0.41	0.24	1.44	0.53	3.11
Italy . . .	0.92	0.90	1.01	0.93	1.67	5.99
United Kingdom.	0.87	3.47	1.00	1.53	1.62	8.54

Germany's adoption of clearing agreements as an integral part of her trade policy after 1933 had enabled her to offer decidedly attractive terms for a time to her Balkan suppliers; the strength of her position had been her willingness to purchase the produce of surrounding countries at high prices and to almost any extent against reichsmarks which could only be used for the purchase in Germany of German

manufactures. 1932 had been the worst year of the depression for Hungary, Rumania, Yugoslavia, Greece, and Bulgaria; Germany continued to maintain the reichsmark at its previous gold value for her transactions with them, and they were undoubtedly highly pleased to dispose of their wheat and other surpluses on very much more favourable terms than they could have obtained elsewhere. Normally, however, trade could be expected to proceed satisfactorily under these agreements only if it remained balanced between Germany and the other country concerned, and it was becoming clear to the Balkan states long before 1939 that Germany as the stronger partner in this system of bilateral barter was in a position to exploit her bargaining power at their expense. The high value of the reichsmark, while it favoured producing and exporting interests in neighbouring states, had the opposite tendency for importers, who were often unwilling to pay the high prices of the goods they really wanted. Thus while they had little choice but to send her what she wanted of their exportable surplus they were forced either to see the accumulation of large credit balances in the clearing accounts or to accept goods of a type or quality which they found unattractive. There were some obvious absurdities—such as the well-known case of excessive supplies of unwanted aspirin—but it appears that the export of armaments of a more or less obsolete pattern formed the chief German method of payment. After 1935 there were therefore more or less continuous attempts by the south-eastern countries to free themselves from the German system.

The obstacles to a successful Allied economic-warfare offensive in the Balkans were, nevertheless, extensive. One of the greatest was psychological: as the nature of the German programme became clearer, the countries of south-eastern Europe certainly displayed anxiety to escape from it, but they also displayed anxiety to avoid the possible consequences of any act of defiance, and this fear of German retaliation can be seen in a certain timidity in standing up to her even in purely economic matters in the years after 1935. It was greatly increased by fear of political and military action after 1938.

Germany for her part seems to have been satisfied that she had on balance more to gain than to lose by revealing her intention to force their collaboration on her own terms, and this forthrightness was certainly more suited to the temperaments of German leaders and publicists after 1933 than any 'good neighbour' policy of economic concessions and reassuring words. South-eastern Europe, although its resources were not sufficient to make, even with the Greater German territories, a completely self-sufficient *Versorgungsraum*, could not be cut off from the Reich by the naval, and perhaps not even the land, forces of rival great powers, and its rôle was indicated with increasing bluntness after the Munich crisis. In October 1938 Herr Funk, Dr.

Schacht's successor, visited Belgrade, Ankara, and Sofia, and developed, in public speeches in all three capitals, the view that 'economic policy must adapt itself to general policy', although he and other official spokesmen continued to insist that Germany entertained no political designs under cover of economic expansion.

The extent to which the south-eastern countries could be induced to defy Germany was not known in September 1939, for while they had given frequent evidence during the previous twelve months of resistance to Germany's more far-reaching schemes, they had not received more than limited encouragement and help from the western powers in their search for markets and supplies in free-exchange countries. Dr. Funk's openly-expressed interest in long-term contracts in October 1938 met with no favourable reaction even in Bulgaria, where German economic interest was strongest. A new German-Yugoslav trade agreement of 23rd October 1938 showed that the Yugoslav Government had equally little interest in the idea. The Yugoslav Government also retained the right to reduce exports to Germany if there were an excessive accumulation of blocked marks in the clearing account; it proceeded to exercise this right in respect of certain classes of goods in the last months of 1938, and in the following January received a sharp reminder of Germany's economic power when Germany refused import licences for Yugoslav wheat, pigs, and cattle. At this stage the British Government's policy was still based on the assumption that central and south-eastern Europe formed an area in which German economic expansion was natural and inevitable, and in which Great Britain should not exacerbate the existing political tension by launching an economic war, although she should be prepared to take steps to maintain Britain's legitimate trade. After a British firm had undertaken in September 1938 to sell 400,000 tons of Rumanian wheat in the United Kingdom or in other countries with free or strong currencies, 200,000 tons were purchased in October by the Food Defence Department of the Board of Trade for storage.¹ But although legislation was introduced in December 1938 to raise the limit of the Board of Trade's powers to give political guarantees from £50 millions to £75 millions it became clear during the early months of 1939 that the policy of 'political credits' was not to be pushed very vigorously in the Balkans. An important step had been taken in May 1938 when a credit of £10 millions was given to Turkey for industrial equipment, and £6 millions for armament purchases. But this important example of political-financial diplomacy must not be regarded as an exception to the general policy of inaction in south-eastern Europe; Turkey was never regarded in this connection as part of that area.

¹ This and other food purchases are discussed in Mr. R. J. Hammond's history of food policy in this series.

It was, therefore, going too far to assume that the Balkan states would necessarily collapse completely before increased German pressure: the extent to which they could be emboldened by British and French assistance had not been put to the test. Rumania signed a trade treaty with Germany on 23rd March 1939 which provided among other things for mixed German-Rumanian mining companies to exploit certain minerals, for industrial collaboration between the two states, and for the supply of German import requirements and Rumanian armament requirements on a barter basis, but she was stated to have rejected completely some days earlier German proposals that she should cease by stages to build up a national industry, that her entire exports of grain, lumber, oil, cattle, and foodstuffs should go only to Germany, and that in return Germany should guarantee her integrity and independence. On 27th March the Rumanian Prime Minister said that his country would fight with all her might to maintain her integrity, and the Anglo-French guarantee of Rumanian integrity was accepted.

The A.T.B. Committee, in its discussions during the last months before the war, did not entertain any very high hopes of conducting effective economic-warfare in the Balkans. A report dated 16th June 1939 indicated that Greece alone among the Balkan and south-eastern countries might be expected to sign a war-trade agreement, although it was recommended that Rumania should be pressed strongly to do so, 'even if it appears likely that the result would be a German attack upon Rumania'. Nevertheless, the chances of securing war-trade agreements with Rumania, Bulgaria, and Yugoslavia was regarded as 'too slight to justify the preparation of instructions for their negotiation'. Pre-emption was not discussed. In general, the pre-war plans had recognized that the Ministry would meet with interdepartmental difficulties in pushing any schemes for pre-emptive and political purchases, but had been unable to provide a solution.

. . . no hard-and-fast plans can be made in advance, since our ability to use guaranteed purchases as an inducement to neutrals will necessarily depend on the availability of foreign exchange and tonnage, and on our own import requirements. All proposals for purchases will therefore require to be worked out in close consultation with the Treasury, the Ministry of Shipping, the Board of Trade, and the Ministry of Supply. Where, however, we are in any case obliged to make large purchases abroad to meet our essential requirements, it will be important that the departments of His Majesty's Government responsible for making the purchases should bear in mind (i) the possibility of using them as a *quid pro quo* for some concession in regard to economic warfare and (ii) the importance of keeping the Ministry informed of their plans. Apart from purchases

intended merely as inducements to neutrals cases may arise, especially with commodities of which we already control a large part of world production, where purchases may be made solely in order to prevent the commodities in question from reaching the enemy.

A subsequent paragraph on procedure made it clear that the Ministry could not engage directly in purchases. Thus at the beginning of the war the Ministry was handicapped both by the absence of any precise agreement as to the extent to which foreign exchange and other facilities for pre-emption could be made available, and by the lack of direct contact with neutral markets; conditions which prevented all hope of rapid, energetic, and effective action.

(ii)

General Policy

The course of events in the Balkans during the first period of the war was such as to confirm on the whole the somewhat gloomy pre-war anticipations of the Ministry. Nevertheless a good deal was attempted, and it was on its experience in the peninsula that the Ministry based its arrangements for more effective pre-emptive purchasing in the summer of 1940.

The problem in general terms was to cut off Balkan supplies to Germany in spite of her superior political, military, and economic influence. For this purpose, little use could be made of the maritime blockade; before the war, less than forty per cent. of Germany's import trade from the Balkans was seaborne. Furthermore, owing to their limited pre-war interest, England and France had little of the close acquaintance which Germany had acquired with the economic cross-currents in the Balkans. The Balkan states for their part could never forget Germany's capacity for unpleasantness. Moreover, they urgently wanted armaments, which the Allies could not supply; but Germany, owing to her more advanced preparations and her grabbing of the Skoda works, could do so if she wished.

The Ministry did not ignore the possibility of some war-trade or rationing agreements with the Balkan states, and in one case, Greece, a temporary war-trade agreement was concluded as early as 13th October. But its main reliance was on purchases. Here, however, it encountered Treasury objections to any substantial expenditure for purely pre-emptive reasons; this and the absence at the beginning of the war of either a separate purchasing organization for pre-emption or a specific fund for the purpose meant that for a time progress was

slow. An interdepartmental committee under Sir Frederick Leith-Ross was set up in September 1939 for the co-ordination of purchases in neutral countries, but made little headway, and after the end of the year it was found more convenient to handle the matter by direct discussion between the officials concerned.¹ The War Cabinet had sanctioned one big step on 12th September, when it agreed that all surplus oil stocks in Rumania should be purchased immediately, but the Rumanian Government at first demanded payment in dollars, and to this the Treasury would not agree. Pre-emption was discussed by Mr. Cross with the newly appointed French Minister of Blockade in October, and they agreed as to the importance of purchasing as much as possible of the key commodities—especially metals and minerals, oils and fats—available to Germany in adjacent-neutral countries. But by the middle of October it had become clear that the Germans had got well ahead of the Allies as far as 1939 production in the Balkans was concerned, so that, in the case of both agricultural products and minerals, immediate action was to a large extent impossible.²

These early disappointments led to a re-examination of the position. The Ministry discussed with the supply departments a priority list (estimated at £11,200,000) of commodities other than oil which it regarded as specially important to secure, and the Ministry of Food suggested that a purchasing commission should be sent out to Balkan countries by the Ministry of Economic Warfare, which should be responsible for the extra expenditure involved. The Ministry of Food, with some reason, took the line that it would be extremely embarrassing to it in its difficult negotiations with its other suppliers if it had to pay much higher prices in countries adjoining Germany. It was decided to seek cabinet approval for a more ambitious pre-emption policy on these lines. A memorandum (dated

¹ During the first months of the war there were a number of ministerial and inter-departmental committees and sub-committees dealing with economic-warfare purchases. They came under the general charge of the Ministerial Committee on Economic Policy. The interdepartmental Committee on the Co-ordination of Government Purchases in Neutral Countries was set up in September 1939, under the chairmanship of Sir Frederick Leith-Ross, and appears to have held only two meetings, both in September. It was replaced by the Economic Warfare Purchases Sub-Committee of the Anglo-French Supply and Purchases Committee; this sub-committee apparently held one meeting, on 9th November 1939. Then, also on 9th November, the Ministerial Committee on Economic Policy agreed to the appointment of a Ministerial Sub-Committee on Economic Warfare, which was also to be responsible for economic-warfare purchases. The fact seems to be that in the administrative confusion of the autumn of 1939 it was believed that co-ordination between departments could best be achieved by a complicated series of formal committees, and the framework of these committees changed every month or so. As time went on simpler and better methods of liaison were achieved by *ad hoc* meetings or direct correspondence by officials of one ministry with their opposite numbers in others, and the committees just ceased to meet.

² There were, however, a few examples of successful pre-emption in 1939, such as the purchase of whale-oil from Norway, which the Germans were anxious to secure. For particulars see Mr. R. J. Hammond's history of food policy.

11th October) referred to the deadlock in the Rumanian oil negotiations, and pointed out that the Ministry of Supply had already covered British requirements of metals and minerals and was not interested in purchases in Europe; the Ministry of Food was prepared to purchase any quantities of vegetable oils and fats shipped to Britain, but it had no machinery for arranging such purchases in Balkan countries, which would often involve payment of higher prices. The French were negotiating for Yugoslav lead and copper, but had met with demands from the Yugoslav Government for the supply of war material and possibly other goods in return. The terms of the Ministry's appeal for cabinet approval are worth quoting, as they give a glimpse of the strange optimism of these early months:

The military situation does not appear to admit of an early decision in the field and the prospects of an Allied victory seem to rest on a successful war of attrition. If this is the case, it is surely a matter of the greatest importance to restrict, as closely as possible, the supply to Germany of all key materials and foodstuffs. The war is now costing us about £5 millions a day and the purchases proposed by the Ministry of Economic Warfare in its priority list would not represent more than two days' expenditure. It is, of course, impossible to calculate the value of our blockade of Germany in precise terms of duration; but there can be no doubt that the restriction of Germany's supplies, *if it can be made effective*, may shorten the war, not by weeks but by months.

It asked, therefore, for authority to arrange for these purchases either through the Ministries of Supply and Food, or, if they were unwilling, through a purchasing organization of its own.

This proposal met with some success, but on too limited a scale for effective results. The Treasury view, as set out in a letter from Sir John Simon to Mr. Cross on 24th October, was that the greatest importance must be given to the conserving of British exchange resources, and that the Exchange Requirements Committee should examine proposals which involved the using-up of these precious resources to obtain supplies which could be bought elsewhere for sterling. He was in favour of the purchase of cotton from Turkey, but not of the metals included in the Ministry's list, as it seemed clear that the Ministry of Supply could not use them. And he suggested that 'one method of hampering Germany in obtaining supplies in Balkan countries would be to compete strongly with German exports by exporting there ourselves the same commodities which she has to sell, if necessary at a cut price'. During succeeding weeks the Board of Trade also took, through Mr. Stanley, the view that the promotion of exports was the best means of loosening Germany's economic grip on the Balkans.

All that the Ministry could obtain at this stage was authority to spend up to £750,000 in the next three months on the purchase of Balkan foodstuffs and oilseeds at a price up to fifteen per cent. above the competitive price. It was not impressed by the proposal to increase exports: admirable as this plan might be as a long-term solution it was obviously not likely to meet the immediate need for snap purchases and rapid action. A further obstacle to rapid action was the absence of a purchasing organization, and the Ministry set out the case for sending experts to the Balkans in a further memorandum of 6th November 1939. After recapitulating the known facts of high prices, Germany's ability to pay in local currencies, and the advantages of her official buying technique, it went on to point out other drawbacks—Balkan produce was not graded in a manner suited to the British market, shipping was scarce, the Balkans were more concerned to obtain raw materials and manufactured goods than sterling. It was thus impossible to undertake more than sporadic purchasing until a definite long-term policy was worked out. The Ministry also desired a change in the existing system of payments, pointing out that the exchange rate of sterling in the Balkans was high in comparison with the low German rate; it favoured some system of clearing agreements. But to this it was rightly objected that it was of little use to try to tie up the Balkan countries in clearings and to make them take manufactured goods which they did not want: the only way was to provide the war materials and raw materials which they did want.

It was agreed in November that a mission of investigation should be sent to the Balkans, on behalf of the Ministry, under Mr. van Zwanenberg of the Ministry of Food. He met the French authorities on 15th December and it was arranged that M. Legendre, an expert in meat, should join him in Yugoslavia. The terms of reference of the mission were wide; it was to investigate German trade with Hungary, Yugoslavia, Bulgaria, and Rumania, to estimate the future trend of production and trading as a basis for a long-term economic-warfare policy, and more particularly to find out what feeding-stuffs it was desirable for economic-warfare purposes to deny to Germany. The mission reported on 12th February 1940. It said that the Germans were buying an immense range of products, 'everything from wheat to wine and strawberry leaves'. Their methods of payment were simple; British methods were 'unbelievably difficult and complicated'. Bulgaria was described as 'welcoming' and anxious to foster trade with Great Britain, although the political scene was overcast by her dependence on Germany. Yugoslavia seemed in no way apprehensive and was willing to increase her trade with England, but Rumania was said to be overcome by 'almost paralytic fright' of Germany. Hungary was apprehensive. In the case of food exports

Mr. van Zwabenberg reported strong pressure by Germany on, for instance, Hungary and Yugoslavia, which had, in spite of an enormous surplus of meat, instituted meatless days. 'The Balkan position is a wide open door in the Anglo-French blockade and as far as foodstuffs are concerned, practically no effort has yet been made to close it.' He put special emphasis on maize as occupying the key position in the whole agricultural situation.

In the meantime discussions were continuing in London about the setting-up of a separate organization for pre-emptive purchases. Negotiations for purchases of micaceous hematite in Norway, Rumanian timber, and Italian hemp (see pp. 283, 286-9) all served in differing ways to emphasize the inadequacy of the existing procedure. The relatively unimportant case of micaceous hematite reduced the Ministry's officials to a state of exquisite exasperation. In these three cases the Germans bought up the supplies during October while the British were arguing as to the terms on which they would purchase. Moreover, even when Treasury approval had been obtained for economic-warfare purchases, there were administrative difficulties in getting the other departments concerned to take action. The buying was in the hands of officials who knew the normal suppliers of the United Kingdom market, but who had little knowledge of, and no interest in, the new and special markets which the Ministry wished to develop. As it seemed impossible for the moment to persuade the Treasury to imitate German procedure and send a representative to settle a contract on the spot at the best price obtainable (although the Ministry believed that at least as much was being lost from delays as would be under this procedure) it was proposed early in November as a partial solution that the departments concerned should at least arrange to appoint special officers with authority to ensure that proposals for purchases in European neutral countries (e.g. Scandinavia and the Balkans) should be considered as rapidly as possible.

By the end of November, however, the idea of a separate trading company was beginning to take shape, and on 7th December the idea was approved at an inter-departmental meeting by all the ministries present except the Treasury. On 19th December Sir John Simon also accepted the plan in principle, and so was launched the scheme which took final shape in the spring of 1940 as the United Kingdom Commercial Corporation (the U.K.C.C.). A number of difficult problems had to be worked out—constitution, finance, and the relationship with the purchasing departments. It was thought best that instructions for purchases should come from the Ministry and for exports from the Board of Trade: the shares would be held in the name of the Treasury Solicitor on behalf of the Lords Commissioners of the Treasury. The company's purpose was to conduct and promote trade between the United Kingdom and certain specified countries (and

others as agreed from time to time) and wherever possible to assist the blockade and economic warfare by its operations in those countries. It would be free to conduct whatever trade it might desire, taking the risk of profit or loss: and it would receive every support from the relevant departments of the British Government, which would keep it fully informed of any negotiations in the countries concerned. The Treasury would provide staff. Secrecy would be maintained about the company's operations. The fact of the decision to set up the company was communicated to the British ministers in the various countries concerned on 26th January.

It was agreed to ask Lord Swinton to become chairman of the company. In an exchange of letters with Mr. Cross he pointed out that the company, whilst operating as a trading company in south-east Europe and Turkey, would have as its most immediate object the prevention of the export of goods to Germany; it should have 'as free a hand as possible to manage this very tricky business in its own way'. His very capable board might make losses. The success of the company 'must depend on the extent to which it is supported and used by the government departments'. These points were covered by the final drafting, and the company was incorporated on 11th April 1940 as the United Kingdom Commercial Corporation, with an initial capital of £500,000. A subsidiary company, the English and Scottish Commercial Corporation, was incorporated on 24th April. The French had been considering similar arrangements, but at the end of April these were 'apparently still rather inchoate'.

To the Ministry, Mr. van Zwanenberg's arguments had seemed to provide an overwhelming case for pre-emptive purchasing on the largest possible scale; it felt that nothing except finance should be allowed to limit purchases in any way. His report was taken to prove that an entry into Balkan markets merely to raise prices against Germany was futile, since she could apparently adjust prices at will by exchange manipulation to suit herself. 'The initial effort required to divert supplies away from Germany may prove expensive and tedious at the outset, but as we become more firmly established in these markets, and the Balkan exporter finds that he receives prompt payment, these initial difficulties will disappear, and this new channel of trade will begin to flow with increasing momentum, and with increasing discomfiture to the Germans.' Early in February 1940 therefore the Ministry recommended a large purchase of Rumanian maize (£3 millions). Mr. Cross went so far as to say at the end of March that he thought that if Germany could be prevented from importing fats and feeding-stuffs it would be impossible for her to contemplate another winter of war. But Treasury objections stood in the way. On a later occasion an official of the Ministry, answering Mr. Dalton's strictures on the almost total failure of the purchasing

policy in Yugoslavia, claimed some successes over minerals, but admitted that the Treasury's inability to help had prevented any success 'as regards fats and feeding-stuffs'. This was substantially correct, although the following figures do not suggest a total failure.

Pre-emptive purchases of fats and feeding-stuffs in the Balkan countries before the setting up of U.K.C.C.

11,000 tons sunflower seeds and cake from Bulgaria—value £102,250.

34,000 tons maize from Bulgaria and Rumania—value £221,680.

941 tons linseed and cottonseed cake from Greece—value £13,318.

3,800 tons olive oil from Turkey—value £29,400.

Bacon from Bulgaria, Rumania, and Turkey—value £497,500.

The U.K.C.C. had little chance of making any headway in the Balkans before the closing of the Mediterranean to British merchant shipping at the beginning of May. As a result of the closure the Cereals Control Board decided to suspend its purchases of maize. The U.K.C.C. made a start by buying 200 tons of tin (reported on 27th May), but after that there was a period of general irritation and frustration. The new minister, Mr. Dalton, took a very active interest in pre-emption, and was dissatisfied with the scale of purchases; he wished to substantiate his pleas to the Chancellor of the Exchequer for grants on a more munificent scale than the 'entirely inadequate' sum originally granted. He claimed that the entry of Italy into the war in June had made the working of the corporation more important and more difficult. Representatives of M.E.W., U.K.C.C., and the Ministry of Food, at a meeting on 6th June, agreed on a priority in purchases of lard and fat backs from Hungary, Yugoslavia, and Rumania, grass seeds in Hungary, and tanning materials in Yugoslavia; with soya beans and sunflower seeds to follow if funds permitted. The Treasury agreed to an expenditure of a further £1 million over the next three months (of which one-half might be in free exchange) and there seemed general gratification in M.E.W. at the 'new lease of life' given to the corporation by this encouragement. On 24th June the actual commitments were stated to be £84,000 and prospective commitments £903,000—neither involving immediate cash payments. But the great period of the U.K.C.C. was still to come.

It will be clear from this general sketch of the Ministry's purchasing policy in the Balkans in the winter of 1939-40 that the record was largely one of failure. Some of the activities of the Ministry in the various Balkan countries were, however, of considerable interest in themselves, and were of some importance for the future, and it will be convenient to consider them separately in the following sections.

(iii)

Rumania

Rumanian oil was too obvious a factor in German war economy to need any particular advertisement by the Ministry, and throughout the winter of 1939-40 a great many ambitious plans for diverting it were proposed and developed by the Allies. It was true that Germany had established a tight hold on Rumanian economy by the far-reaching trade treaty of 23rd March 1939 (formally ratified on 20th December 1939), but this did not exclude trade agreements between Rumania and other countries, and after the acceptance of the Anglo-French guarantees against aggression it was hoped that Rumania would not be in too timorous a state to meet the Allied approaches half-way.

Attempts to negotiate a war-trade agreement with her were not, it is true, expected to have much success; M. Tilea, the Rumanian minister in London, did, nevertheless, make formal application on 10th October 1939 for the opening of discussions for an agreement. He suggested an increase of trade between the two countries, whereby Rumania would supply wheat and oil in large quantities, and barley, maize, meat, eggs—in fact foodstuffs of every kind; also timber. In return Rumania wanted chiefly arms and equipment. It was clear that M. Tilea was willing to contemplate an agreement which would combine the functions of a war-trade agreement (limiting supplies to the enemy) and an agreement fostering trade between the two countries. The negotiations hung fire, however, for the rest of the winter, owing partly to the van Zwanenberg mission, and partly to doubts on the British side as to the possibility of making any such arrangements effective.

Most of the Rumanian oil industry was in the hands of foreign capital: British and Netherlands (39·8 per cent.), French (16·6 per cent.), and United States (12·5 per cent); Rumania supplied only 9·7 per cent. The largest crude-oil producer company was Astra Romana, controlled by Royal Dutch-Shell; another, Romano Americana, was controlled by Standard Oil; a third, Petrofina, by Belgian capital. The shareholders of a fourth company, Steaua Romana, were the Rumanian Government, the Anglo-Iranian company, and private bankers. On 12th September 1939 the War Cabinet authorized extensive plans for diverting Rumanian oil supplies from Germany. These included the immediate purchase of all surplus oil stocks in Rumania, the placing of contracts for the next six months for all surplus output which might go to Germany, the obtaining of an option on supplies after the expiry of the six-month

contracts, and the chartering of all available oil barges and rail cars in Rumania. All payments were to be made in inconvertible sterling. Undoubtedly there was much over-optimism in these plans. No unfavourable reaction from the Rumanian Government was anticipated; excessive prices were not to be paid; the French were to be persuaded to take an equal share in the transaction. The British minister in Bucarest was to be given the best technical assistance in carrying out the plans.¹ The complexities of the situation became clearer in the next few days. The Ministry objected that an isolated transaction of this kind would mean the loss of a trump card in negotiating a war-trade agreement, but this was brushed aside on the ground that Rumanian oil was too urgently important to be made part of a general war-trade agreement. The British minister, Sir Reginald Hoare, pointed to the probability that the introduction of economic-warfare measures into Rumania by the immobilizing of tank cars and barges would lead to legislation by the Rumanian Government to ensure that its neutrality should be patently genuine. It was, again, intended that the Shell Company (through Astra Romana) should make the purchases, but the company was still supplying Germany under contract and Sir Reginald Hoare warned the British Government on 16th September that a definite refusal by the Rumanian oil companies to supply Germany would lead to an immediate crisis.

Accordingly there was little progress for some weeks. The desire of the Rumanian Government for payment in dollars held up purchases for a time, but it continued to urge the British and French Governments to increase their purchases. At the end of October the Treasury authorized the British companies to offer about fifty per cent. above the Gulf price; the Ministry supported this plan. It was decided early in November to send out experts with authority to make contracts and purchases on the spot.² For some weeks after this, considerable buying took place; contracts were signed with the British companies for their entire export surplus. This oil had, of course, to remain in store in Rumania pending arrangements for its transport, and a tanker programme was arranged accordingly. Then in December there came a fresh complication: the Rumanian Government decided to control and limit exports, very much as Sir Reginald Hoare had anticipated.

The first signs of this development came at the beginning of the

¹ A 'Committee on Preventing Oil from Reaching Germany' was set up by the War Cabinet, under the chairmanship of Lord Hankey, to co-ordinate plans and carry out cabinet policy. Its first meeting was on 17th October 1939.

² The Hankey Committee arranged in December for an official oil specialist to be attached permanently to the legation at Bucarest, to represent M.E.W. and the Mines Department.

month, when the Rumanian authorities began to refuse export licences for various shipments; thus authorization was refused for the shipment to the United Kingdom of 7,000 tons of oil for which the Asiatic company had already received governmental approval. The reason given was that the United Kingdom quota was full. Hitherto, however, no such quota had been known to exist, and Sir Reginald Hoare was instructed on 10th December to take strong exception to this reversal of policy. Later in the month he was instructed to insist very strongly that all purchases already made should go through.

Several factors seem to have contributed to the Rumanian decision. German pressure was obviously one; the coincidence of the imposition of restrictions with a visit by Dr. Clodius was hardly likely to be accidental. It was clearly the policy of the German Government to make delivery of German armaments depend on the supply of fixed quantities of oil, and the heavy purchasing by the British and French companies was equally clearly devised to reduce supplies to Germany as much as possible. It was conjectured in London that the Russian attack on Finland had aroused Rumanian fears and increased their inclination to seek reinsurance with the Germans. An agreement was signed with Germany on 21st December. There were conflicting accounts by Rumanian representatives as to its exact terms. M. Tilea, on his return to London after a visit to Bucarest, said that the upper limit for sales to Germany had been fixed at 1,300,000 tons a year, and to the Allies at 2,000,000: M. Tatarescu, the President of the Council, said on 22nd December that there was no obligation on Rumania's part to ensure the supply to Germany of the promised quantities. Other accounts, which were confirmed later, gave a higher figure for exports to Germany. What seemed all too probable was that if the Germans provided the required armaments the Rumanian Government would find means of making the necessary quantities of oil available, in spite of the large measure of control by Anglo-French interests over the oil industry. During the negotiations with the Germans the Rumanians had consistently declined to discuss with the British representatives the methods by which they could acquire additional deliveries of petroleum products; they were also placing obstacles in the way of additional wheat purchases.

British policy up to the end of 1939 had therefore resulted in the purchase of a great quantity of oil, and it had been the means of establishing beyond any reasonable doubt that the Rumanian Government had committed itself to the German Government for a definite amount of oil. The uncertainties of the situation led the British interests on 23rd January 1940 to withdraw for a time from the independent market, although they took care of the current surplus of the British and American companies. This decision was

influenced by the fact that as the Germans had been promised by Rumania a quantity far exceeding the independent surplus, Allied purchases of the latter might lead to pressure on the Allied-controlled companies to sell to Germany. (France was following a different policy: she worked on the barter principle, and had not tied up the export surplus of the French and Belgian companies, with the result that French oils were constantly on the market.) During the early weeks of January 1940 it became clear that export licences were being refused on grounds considerably less plausible than those of December. Partly to clarify the position, the British minister agreed to the submission to the Rumanian Government by the three British-interest companies of long-term contracts; these were for the sale at fixed prices to the British parent companies of the whole of their exportable 1940 stocks of all products (1,178,000 tons, at an estimated value of £10 millions). These proposals were rejected by the Rumanians on 18th January. Sir Reginald Hoare continued to believe that, in spite of all appearances, there was 'a definite will to resist German pressure'. But he urged the making of concrete counter-offers, and thought that Allied economic sanctions might play into German hands.

As ordinary commercial action was no longer adequate, the British Government decided to try political pressure, and other plans (such as the hampering of German transport) received increased attention. Rumania was spending a British credit of £7½ millions, so that the British Government could cut off some supplies. A memorandum of 30th January accordingly explained to M. Tilea that the British Government looked for full particulars of any promises or undertakings which the Rumanian Government had made to Germany about oil, and of the armaments or other supplies which the Rumanian Government had received, or expected to receive, from Germany. In the light of this information the British Government would examine the supply of raw materials and other commodities to Rumania. (The Foreign Office had already explained to M. Tilea that there would be no interference with three torpedo boats and with ambulances and tents which were in process of being loaded.) The Rumanian authorities continued to insist that, except in the matter of the rate of exchange for marks, the German Government had neither asked for nor received anything beyond the terms of the agreement of March 1939. The Rumanian reply on 19th February was conciliatory in tone; it expressed full appreciation of the British and French guarantees, recalled the fact that approaches in May 1938 to Lord Halifax and M. Bonnet for assistance in preventing German domination of the Rumanian market had had little effect, pointed out the close commercial relations of the country with Czechoslovakia (which had received Rumania's most important

armament orders), and explained that Rumania was receiving from Germany the military material of which she was in greatest need. The opening of the war in Europe meant an increase in Rumanian requirements of armaments and the only way that she could secure these was by exporting vastly greater quantities of oil to Germany. In these circumstances the Rumanian Government had thought it wise to state clearly and to limit the quantity of oil that Germany could receive; far from granting new rights it had limited the German rights of purchase. The Foreign Office found it expedient to take the view that the reply afforded sufficient evidence of goodwill to warrant the removal of restrictions on exports from Britain to Rumania, but there were nevertheless some blunt questions in a memorandum presented to the Rumanian minister in London on 2nd March. The Rumanian Foreign Minister was obliged to admit on 7th March what he had previously denied, namely, that his government was committed to make available to Germany the quantities of oil mentioned in the agreement. The correct annual figure was, moreover, 1,560,000 tons, not 1,300,000. In April, M. Tilea tried to persuade Lord Halifax that the latter figure had been due to a typist's error.

Much thought was, in the meantime, being given to plans for hampering the transport of oil to Germany. It has been seen that the War Cabinet on 12th September 1939 had authorized the purchase of oil barges and tank cars in Rumania: authority was given to the British representatives at Bucarest, Belgrade, and Budapest to charter all available tank barges, and by the end of the year 148 vessels of various types had been chartered. To extend the scale of these operations a company, the Goeland Company, was then formed to concentrate all schemes under one management. Proposals to this end were first made in Bucarest during the autumn, and were elaborated by Lord Hankey's Committee.

Although the possibilities of this type of economic warfare were considerable, the difficulties were formidable. The Danube provided water communication for all the countries of south-eastern Europe, and for the landlocked areas of Austria and Hungary, and its traffic capacity was at once strained when war conditions closed the seas to German trade with the Balkans. Traffic on the river was fed by road, rail, and water communications, and by pipe-lines. At the outbreak of war it was known that the Germans had recently greatly altered and enlarged the port of Regensburg; Bratislava, which had been modernized by the Czech Government, had also been enlarged, and improvements had been carried out at Vienna and Linz. The Germans had considerable influence over harbour-masters and other officials in Rumania, and the German language was everywhere spoken. There seemed to have been no extensive building of Danube vessels in preparation for war, but, on the other hand, the Germans

were already the largest shipowners. The fleets employed on the river were, according to pre-war estimates, as follows:¹

	<i>Tugs</i>	<i>Barges</i>	<i>Tankers</i>
Rumania . . .	127	553	66
Germany . . .	57	534	85
Great Britain . . .	7	23	35
Belgium . . .	5	5	—
Bulgaria . . .	2	11	4
France . . .	15	57	14
Greece . . .	39	69	—
Holland . . .	4	33	31
Hungary . . .	35	240	16
Italy . . .	3	3	—
Slovakia . . .	13	136	12
Yugoslavia . . .	75	375	41
	<u>382</u>	<u>2,039</u>	<u>304</u>

Any diminution of the number of vessels available for carrying goods to central Europe would clearly be a valuable operation of economic warfare; but its success was dependent on the continued neutrality of the Danubian countries and upon the maintenance of international control over the river. So vulnerable were these likely to be to German pressure or direct attack, and so important were Rumanian oil supplies to her economy, that the necessity for operations of a much more drastic character than those already in operation was seriously considered by the Allied Governments. These plans, which included the blocking of the Danube by explosives and even the throwing of an Allied expeditionary force into Rumania, were for various reasons rejected, but they leave no doubt as to the high importance attached to the Danubian traffic.

The first meeting of the Goeland² Company was held on 1st February 1940. Nominees of the Treasury, Foreign Office, Ministry of Shipping, and Ministry of Economic Warfare were appointed directors and the M.E.W. representative was elected chairman. The authorized capital was fixed at £750,000, the shares to be held by the Ministry of Shipping; responsibility in all matters of policy was, however, to rest with M.E.W.

The nucleus of the company's shipping was the Anglo-Danubian Transport Corporation, attracted away from a German offer before the war and finally made over to the company on 19th April 1940. The Anglo-Danubian Corporation owned three tugs, three motor tankers, eleven tank barges, and one pontoon, besides operating twenty-one other vessels. To these were added, after complicated

¹ A total of 2,725. The Goeland Company's estimate was 2,716, as far as could be ascertained.

² The Ministry liked to explain the choice of the title thus: *godland* (Fr.) = seamew = S.E.A.M.E.W. = Society for Energetic Action by the Ministry of Economic Warfare.

negotiations, twenty-six vessels of the *Compagnie Continentale d'Importation* (28th June 1940). In rather a different position were the ships (thirty-two) of the Yugoslav Schulz fleet, purchased secretly in December 1939 (it being impossible for British agents to take any overt part in the affair); this transaction was never completely formalized. Another 'difficult' transfer was that of the large French groups (S.F.N.D.) comprising ninety or so vessels, made when it was clear that France would collapse. The negotiations took place in great haste and in difficult circumstances. Acting under German pressure, the Rumanian Government obstructed the transfer of the vessels at Braila, but apparently all but twenty-six of these were got out of the Danube. Successful transactions with the Black Sea and Danube Shipping and Trading Company and the Royal Dutch Shell Group brought in other small groups; the only big failure being in the matter of the 'Comos' fleet (sixty), under nominal Dutch ownership, which it was hoped to get under control at the time of the invasion of Holland. In this case the shares were owned by the Hermann Goering Works and German influence allowed the hoisting of the German flag. Varying estimates were given as to the numbers of vessels, and the Ministry doubted in April 1940 whether the diversion of so small a percentage of the total available tonnage would seriously interfere with German shipments.

At all events a sizeable fleet was collected; the ships were at first kept idle, and later attempts to find employment for them made the commercial manager's job no sinecure. They had considerable nuisance value in causing congestion; but active efforts were also made to use them for trade with neutral countries rather than Germany, and some of the plans for trading with Switzerland, Yugoslavia, and Hungary were successful, though others were cancelled owing to German pressure. A plan to cause congestion by transporting upstream and through Yugoslavia a part of the 200,000 tons of maize, which the Treasury had given leave to purchase, had to be abandoned because of the danger of deterioration. In the end the company was forced to concentrate upon local cargoes, priority being given to those passing the Iron Gate in the hope of causing congestion at this bottleneck. Attempts were made to promote disaffection among the crews of German vessels; eighty men were secured from German ships, and a number of the Iron Gate pilots were won over by monetary offers. There seemed for a time great possibilities in a proposal (March 1940) to subsidize a stone quarry near Orsova and carry stone through the Gate to Turnu Severin; this would involve the use of explosives ('which would thus be available for other purposes') and the keeping of loaded barges near the Gate. Unfortunately for the planners, all this was stopped as a result of the 'Giurgiu Incident'.

This incident came at a very unfortunate moment for British plans. With the unfreezing of the Danube and the launching of the general German offensive against the Allies it would in any case have been necessary to face renewed German demands on Rumania, and a plan had been devised to send naval personnel disguised as watchmen, with arms and ammunition, by way of the Danube to meet an expected or actual threat by Germany. At Giurgiu the ships were intercepted and given an intensive search in mid-stream. The British organizers of the scheme found this search 'both unwelcome and surprising', since they had understood that the Rumanian General Staff were privy to, and approved of, the expedition. The Germans gave full publicity to the incident and threatened to assume full control of the river unless measures were immediately taken for the safety of their transports. The consequences for the Goeland Company were naturally serious. Among the restrictions that the Germans were able to demand were prohibitions on the transit of arms and explosives except by permission of the transit states, and on the passage of heavy materials through the Iron Gate without permission of the International Commission. The company's crews, staff, and vessels were subjected to continual searches and inquisitions which made further trading on the Danube virtually impossible. In view of persistent rumours that Germany intended to police the river, all vessels under Allied flags were moved downstream below Braila. After this it was virtually impossible to cause congestion or inconvenience to German shipping by what could be described as 'commercial' methods.

It must be borne in mind that in the Danube valley sabotage, so elusive and colourful a contribution to the later war effort, was making its first experiments, and was not viewed too happily by some of the British authorities. Its history lies outside our narrative and it is only necessary to note here that the Goeland Company's activities suffered to some extent from conflicting policies. What may be called the more positive purposes of the company in the economic-warfare field—such as the diversion of supplies from Germany—did not always coincide with other schemes. The Belgrade legation noticed in March 1940 that the grain shipping project was presented by agents of the company in Bucarest as a 'railway congestion' plan, but that it was not so intended by M.E.W. There were, in fact, 'merry boys in Bucarest . . . full of bright ideas and very determined', whose ultimate masters were not at all clear. Some seemed to come under the general authority of the Ministry, some under some special branch of it, some under the Admiralty, some under the Foreign Office. There was no doubt some conflict of policies and of control, and the possibility of an imminent push by the Germans into the Balkans led to much discussion of naval plans.

However, the British were in any case playing a losing game in Rumania and the position after the spring had to be one of defence, and then of rather hasty retreat. In April, the Rumanian Government called on all the companies to account for their royalty crude oil (totalling 55,000 tons a month) as from October 1939; this was rightly regarded as the beginning of an attempt to get petroleum in large quantities to Germany now that the Danube was opening after its long winter closure. Between September 1939 and April 1940 Germany received, by rail and river, 424,000 tons of oil, according to British figures. The German deficiency for the year was by then 476,000 tons, the maximum carry-forward permitted was 260,000 tons, so that in theory 216,000 had been inevitably lost. However, the figure for May rose to 102,860 tons, and shortly after this Rumania's virtual capitulation to German demands brought the figure well above the 130,000 tons of the December agreement. On 19th May, the Rumanian petroleum commissariat made it clear that in addition to the oil that could be obtained elsewhere, the Rumanian Government would require anything between 50,000 and 100,000 tons per month as from the following 1st July from the companies controlled by Allied capital. All that could be done was to carry out a policy of delaying tactics. There was a danger spot in the large stocks at Constanza, and the British minister in Bucarest was informed (19th June) that arrangements were to be made for filling all available storage, including bunkers, at Istanbul and elsewhere: alternatively it might have to be burned or pumped into the sea. In the case of the Goeland Company's vessels, plans for evacuation to Istanbul had been drawn up in December 1939, and it was decided in April 1940 to make a trial tow from the Danube. Evacuation proper began in mid-June; thirty-five vessels were got away before the Rumanians under German pressure refused to allow the others to proceed. Some others did escape, and by the time of the fall of France about seventy-five ships under Allied flags had been brought safely to Istanbul. A subsidiary company was formed in Rumania to take over the rest of the chartered vessels.

It is not surprising perhaps that the war-trade negotiations which had commenced in October 1939 had made little progress during the winter, and in the circumstances the despatch of a Rumanian delegation to London in April 1940 can hardly be regarded as anything but a means of marking time. Agreement on all quotas was reached on 24th April for a first ration period (1st June-31st August 1940). The agreement (which placed emphasis upon the control of importers of raw materials) was initialled on 11th May, without the final concurrence of the French Government (which was nervous lest the agreement should prejudice the operation of certain oil contracts). News came from Bucarest on 30th May that the Rumanian Govern-

ment did not approve of the text, arguing that the signature in its then form would mean a departure from strict neutrality; it accepted, however, the coming into force of the agreed quotas from 1st June.

So the matter was left—the initialled agreement should stand as the embodiment of the British understanding of the machinery to be applied to imports into Rumania through contraband control and the quotas should be agreed quarterly between M.E.W. and the Rumanian authorities. On 6th June an Anglo-Rumanian trade agreement was signed in London with provision for sterling payments by Rumania to cover outstanding debts. Already, however, the replacement of M. Gafencu by M. Gigurtu on 1st June had foreshadowed a *rapprochement* with Germany; a new National Unity Party was formed, and on 1st July the government announced a reorientation of Rumanian foreign policy as determined by the new European order, and the renunciation of the Anglo-French guarantee.

Had the policy of pre-emption seriously reduced the quantities of oil drawn by Germany from Rumania? This cannot be answered with certainty, for in the early months of the war it was transport rather than availability of supplies which formed the bottleneck. Nevertheless, 680,000 tons of Rumanian oil were delivered to the United Kingdom, and 325,000 tons to French territories up to the time when the Mediterranean was closed on Italy's entry into the war. The competition had made Germany pay heavily for the oil she secured, and reduced to that extent her power to purchase other goods. It had also encouraged the Rumanians to procrastinate somewhat in the face of other German demands. However, Russian aggression and German victories had brought about the collapse of the Allied effort by July 1940.

(iv)

Hungary

Negotiations with Hungary during the first winter of the war are mainly of interest as an early experiment in rationing. Her export of her own products to Germany was not of great importance from the economic warfare point of view, but from the outbreak of war there was evidence of abnormal imports into Hungary of cotton, copper, tin, and lead, believed to be for ultimate German destination. Britain could control many of these imports. Sporadic discussions before the arrival of a British exploratory mission in November 1939 were followed by the partial acceptance of the British Government's requests. A representative of the National Bank came to London for discussions and a draft agreement was initialled on 14th December; the main

points were that purchases of raw materials would all be under the control of the Hungarian Office for Foreign Trade, with which would rest the working of the machinery devised for their importation. It was planned to work out the quotas in the new year, and these were to be larger than pre-war because of the recent addition of territory to Hungary. For this purpose the National Bank representative returned to London. The negotiations began on 1st March 1940 and did not go too easily; it became evident that the Hungarian Government resented the request for information about various firms' export trade with Germany, and there were some objections by the French. The French authorities thought that the pre-war (1938) figures were very generous; they objected in particular to the figure proposed by M.E.W. for copper. The Hungarians, on the other hand, pressed for quotas considerably in excess of the 1938 figures. By the end of April a considerable degree of agreement had been reached and might have led to an acceptance of the *modus vivendi* initialled on 14th December; but on 10th May it became known to the Foreign Office that the Hungarian Government would comply with a German demand for the passage of German troops across Hungary, should this be made. The result was that control was tightened over current and proximate quotas. Finally, on 13th June, the British authorities said that a discussion of the final quotas for the current period would have to be deferred owing to 'recent developments in the Mediterranean'.

(v)

Yugoslavia

In Yugoslavia direct negotiations over the disposition of her mineral production overshadowed the question of a war-trade agreement. Her copper and chrome production assumed an importance out of all proportion to its percentage of world output. The chief preoccupation of the Yugoslav Government in the three years preceding the war had been to acquire armaments and machinery which Germany had promised in exchange for the products of all kinds sold to her by Yugoslavia. By the summer of 1939 Germany was in debt on the clearing to the extent of 750 million dinars (approximately £3·6 millions). An attempt had then been made to induce Prince Paul (on a visit to Germany) to grant Germany a monopoly of Yugoslav mineral production; this had failed, but the German deficit had been reduced to 300 million dinars by deliveries from the Skoda works. Great Britain had promised armaments in mid-1939, but had not supplied them; and Prince Paul, speaking in November 1939 'with

great regret and some bitterness of the inability of Great Britain and France to supply armaments', said, 'his Government must obtain them how and where they could'. The question of mineral supplies to Germany soon reached diplomatic level, for in September 1939 the Yugoslav Government announced its intention to take over ore from British- and French-owned mines, payment being made in dinars. These minerals would be used in barter transactions to obtain arms. An agreement was signed by Yugoslavia on 5th October with Germany, who would receive orders for military supplies up to 50 million reichsmarks in exchange partly for agricultural products and partly for specified monthly deliveries of raw copper (1,500 tons), lead (1,000 tons), lead concentrates (2,000 tons), aluminium and antimony (100 tons each).

All these minerals were of interest to M.E.W. because of their deficiency value in German economy. The Yugoslav copper supply, chiefly controlled by the French *Mines de Bor*, was primarily a French preoccupation. The Yugoslav deposits of antimony were the only important source in Europe, apart from Czechoslovakia, of this metal, valuable for hardening lead. There were three mines: Podrinje (mainly British), Montania (mainly German), and Lissa (German-French). At the beginning of the war Lissa was producing 15-20 tons a month, Podrinje, 80 tons, and Montania, 50 tons. All three were likely to increase their production; Montania had been equipped with new machinery by Krupps, it was being rigorously exploited, and it might produce 200 tons by the end of 1940. Its flourishing condition was due to the foresight of the Germans when they lost their supplies from China. In the case of chrome it was the aim of the British Government to cut off supplies from the four sources to which Germany had access—Turkey, Greece, Norway, and Yugoslavia—and of these Yugoslavia seemed to present the greatest difficulty. Zinc and lead, produced mainly by the British-owned Trepca mines, were also of interest to Germany.

Yugoslavia was reasonably well placed for bargaining with both sides, and her early steps to control the output of the Allied-owned companies ushered in an extensive struggle between Allied and German interests. On 21st October 1939 it became known in London that the Yugoslav Government had taken over Trepca to use in a barter transaction with the Germans, and that a governmental organization to control the entire mineral output of the country was being set up. The National Bank of Yugoslavia would also cancel its foreign exchange arrangements with Trepca and all other foreign enterprises. During the next few days the British Government made strong protests in London and Belgrade against these arrangements; it was explained in reply that the Yugoslavs did not propose to create a state monopoly or to confiscate British-owned mines, but to cen-

tralize output and dispose of exports in the interest of national defence. Yugoslav politicians seemed to be impotent in the face of the General Staff, who insisted that everything must give way to military needs. A decree setting up a special commissariat under the Ministry of War to control mining and foundry enterprises came into force on 11th November.

The practical result was, therefore, that Germany could count on securing supplies for which she had contracted; supplies over and above this might be secured by either Germany or the Allies (or by neutrals), and the ability to satisfy Yugoslav demands for military equipment would be a major factor in the case. The Yugoslav Government made it clear that it was prepared for discussions, and as the French were proposing to enter into fairly extensive negotiations with Yugoslavia in the near future, further war-trade discussions took place with the French in Paris early in December. The War Cabinet had, however, decided, on 27th November, that it was not possible to go very far in diverting to Yugoslavia armaments needed for the Allied armies. The French attitude, as it happened, was not on all fours with the British; the French Government was working on a plan for a possible Balkan front against Germany and would not mind some minerals going to Germany if Yugoslavia could thereby receive arms. Military supplies offered by France were not, however, acceptable to the Yugoslavs, who wanted the latest models of everything.

Meanwhile Belgrade reported that the 'tussle has already begun'—the manager of Bor had refused a demand for 5,000 tons of blister copper. Mr. (now Sir Frank) Nixon, of the Export Credits Guarantee Department, who was sent to Belgrade to assist in the discussions (27th November–20th December), found a friendly atmosphere: the chief difficulty about an amicable settlement was that the Allies had so little to offer. 'A hotly contested argument over each mineral' took place, the aim being to have reserved for the Allies everything possible and at the worst not to leave more available to Germany than pre-war levels. But while the Yugoslavs were prepared to restrict deliveries to Germany, they were not prepared to reserve all the rest for the Allies as they wished to retain bargaining counters for other countries. The figures finally agreed (for export to Germany) were higher than those accepted in London. The mineral protocol between Yugoslavia and Great Britain, initialled on 20th December 1939 (and finally agreed on 11th January 1940) was considered fairly satisfactory; but the implementing of it or of the agreement with Germany would mean a continual tug-of-war. Under the protocol the British Government would 'facilitate the supply to Yugoslavia of certain raw materials, semi-manufactured goods, and other products essential for the national defence of Yugoslavia'; in consideration of

these supplies 'the Yugoslav Government would reserve certain quantities of metals and minerals for purchase at the periods specified on the basis of world prices by buyers in the United Kingdom and make them available as and when required'. The quantities were:

Lead concentrates

6,000 tons up to 31st December 1939.

3,000 tons a month January-June 1940.

5,000 tons a month July-December 1940, and in addition month by month the amounts by which the production of the Trepca mine exceeded 7,500 tons.

Pig lead

200 tons a month except in so far as the Yugoslav Government desired to retain any part for delivery to certain agreed countries (Italy, Hungary, and Rumania) in satisfaction of contracts to be entered into.

Aluminium

40 tons a month January-June 1940.

100 tons a month July-December 1940.

Chromite

840 tons a month of chromite or of concentrates based on a content of forty-eight per cent. of chromic oxide.

Ferro-chrome

100 tons a quarter plus any excess of production over that of the corresponding quarter of 1939 except in so far as the Yugoslav Government desired to retain any part of such excess for use as in the case of pig lead.

Antimony regulus

50 tons a month and in addition each month any excess of the production of the Podrinje mine over 45 tons.

Materials specially released for export to Yugoslavia would be covered by arrangements by the Yugoslav authorities to enable the British authorities to identify the orders which were to benefit by these releases. The Yugoslav Government would take steps to prevent the diversion to third countries or the re-exportation of such materials.

The metals and minerals should not be included in the statistics of exports from Yugoslavia in connection with the Trade and Payments Agreement of 1936, but should be paid for in sterling which should be used solely for purchases in the British Empire (except Canada and Hong Kong) and Egypt.

During the negotiations the Yugoslavs, after first demanding war materials, had agreed to let their minerals go simply for sterling. As the French were keenly interested in the Bor mines, it was agreed that

they should take copper, while Britain took all the other minerals and metals. The Allies agreed to aim at buying such quantities that the deliveries to Germany would have to be delayed and spread over a long period; they agreed also to aim at contracting for larger quantities in the second half of 1940 (German deliveries under the October agreement were expected to come to an end by about June 1940).

Then followed, during the early months of 1940, prolonged negotiations in London and Belgrade as to the goods to be purchased from and supplied to Yugoslavia. The British decided during January that the lead purchase was the most dubious in value; it would be difficult to sell and was believed to have but a low 'German deficiency' value. Nevertheless, it was subsequently found necessary to buy 51,000 tons, and by March 1940 there were hopes of resale to France. A progress report on 21st March, drawn up by the Ministry, showed that the Yugoslav Commissioner had authorized the sale of only 30 tons a month of antimony (owing to heavy sales to Italy), although the protocol with Britain allowed 50 tons. The Yugoslavs had also been 'difficult' about aluminium—asking for capital to expand production—but a firm offer of £105 a ton f.o.b. was to be cabled from London. In the case of chrome, the Yugoslav Government was forbidding further exports (despite the contracts) except against a sterling deposit of 130s. a ton. The British realized, however, that in view of the paramount importance of keeping chrome from going to Germany, they would probably have to pay—'if Yugoslavia held us to ransom'. In any case there were doubts as to whether the 10,000 tons of chrome ore provided in the protocol would be available—the co-operation of the Yugoslav authorities would be required to supply this amount to the Allies at the expense of Germany. The same point applied to ferro-chrome, where the producing firm (Ruse) was German-controlled. Little progress was made during April and May. The ferro-chrome firm was instructed to reserve 100 tons of ferro-chrome a quarter for the United Kingdom, but stated that its total stocks had been sold. There were prospects of increased supplies of antimony, but, on the other hand, the price asked for aluminium (£150 a ton) was so far above world prices that it was found impossible to conclude a contract. No attempt was made to purchase chrome, as the economic-warfare purpose was served by allowing the Allatini mines to sell to the United States and elsewhere.

In general, then, it can be said that the actual deliveries of minerals to the Allies under the Anglo-Yugoslav Protocol were not very large; but economic-warfare policy had had a certain modest success in that the German deliveries had been limited to the terms of the existing agreements. Except, however, in the case of chrome, it did not appear that the German purchasing programmes had been thwarted to any extent. In addition to its purchasing policy under the protocol, the

British Government had endeavoured to secure control of chrome production by buying options of workings; a representative of M.E.W. went to Belgrade in March 1940 and had some success in a struggle with Krupps to this end.

The minerals protocol covered much of the ground of a war-trade agreement, and a full war-trade agreement was not, in fact, concluded. A Yugoslav delegation, authorized only to explore the ground with regard to blockade and payments questions, came to London at the end of March 1940, together with a delegation to be engaged on the positive work of placing contracts for the materials to be supplied under the minerals protocol. Though a draft war-trade agreement had been prepared, it was decided instead to present a memorandum, setting forth the British war-trade desiderata in a 'more persuasive' form. This was taken away by the delegation, but no further progress was made. A draft rationing agreement, between the Bank of Yugoslavia and M.E.W., was presented at the same time, and with nine accompanying letters was signed on 15th April. All documents were to be kept secret, and the name of Germany did not appear in them. In effect, however, Yugoslavia secured her essential raw material imports through the blockade. Yugoslavia made trade agreements in May with Germany (confirming the existing agreements) and with Russia; any further discussion about a war-trade agreement with the United Kingdom was deferred in view of the developments in Italy. Italy's entry into the war prevented the direct import of supplies from France and Italy to Adriatic ports, and a Yugoslav-Italian trade agreement approximately doubled the existing volume of exports and imports.

(vi)

Bulgaria

The main products of Bulgaria of interest in economic warfare were maize and oilseeds. Purchases were considered along with those in the other Balkan countries. Not very much was, however, achieved, although 100 tons of sunflower-seed cake were bought in December 1939. The van Zwanenberg report suggested that she desired trade with Great Britain, but that her dependence on Germany was serious. She was prepared to negotiate for the sale to Great Britain of 60,000–100,000 tons of maize during February and March as part of the big programme of Balkan maize purchases (Germany was taking 3,000–4,000 tons per day). Actually, in May 1940, 20,000 tons were reserved for Britain, but the Bulgarian Government wished to make the

sale part of a general exchange of goods which was then being negotiated. The announcement of the setting up of an English commercial corporation was followed by the hasty arrival of a small German economic mission, presumably to protect Bulgarian exports to Germany from interference. The U.K.C.C. was authorized to buy up to five million levass worth of lard, fat backs, and oilseeds, provided that transport to Istanbul or a Turkish port were available; and was still ready to purchase 10,000 tons of maize if it were possible to ship it at once.

In the case of oilseeds there had been much discussion of the idea of 'snapping them up' in September and October 1939; but by 1st November only 50,000 tons were still available and these were being rapidly bought by Germany. It looked as if 10,000 tons might be secured, but negotiations about wheat were mixed up with the oilseed discussions and Bulgaria needed supplies of wool, cotton, etc., in exchange for the oilseeds. The contracts were signed on 12th December, but the Bulgarians subsequently defected to the extent of 4,000 tons, sold to Italy.

This atmosphere of evasiveness was not propitious to the making of a war-trade agreement with Bulgaria. The British minister at Sofia had early foreseen great difficulties in any attempt to negotiate such an agreement, and the Ministry decided that something less ambitious should be aimed at. On 16th April 1940, negotiations began with the Bulgarian minister in London, who at once asked that the negotiations should be commercial and not governmental and should be given no publicity. The matter was complicated from the outset by the news of the transit through Bulgaria of quantities of oil from Russia to Germany (20,000 tons in May, with the probability of double this rate in later months). It was clear that the Germans and the Russians could exert stronger pressure than the Allies. On 14th May, the lists of goods available on both sides were handed in, but the oil-transit question took precedence, and it was thought that efforts should be made to restrict the passage of oil in return for trading advantages. When a draft rationing agreement was sent to the Bulgarian minister on 31st May for despatch to Sofia, he accepted some of the clauses, but refused to transmit the request for statistics of Bulgarian trade; and, while prepared to support the British demand for the prohibition of the export of wool and heavy hides, he altogether rejected the figure of 50,000 tons of petroleum set as the limit of import. Some concessions from the British side followed (3rd June); but negotiations were held up by Italy's entry into the war. In short, no war-trade agreement or rationing agreement was achieved.

(vii)

Greece

Britain's traditional friendly relations with Greece were strengthened by the Anglo-French guarantee of April 1939, and an Anglo-Greek trade agreement of July 1939 had provided credits for Greek imports. This was the beginning of an attempt to wean Greece from her economic dependence on Germany, and negotiations for a war-trade agreement made rapid progress. It proved possible to present a draft agreement to the Greek Government on 7th September and to effect an exchange of notes constituting a temporary war-trade agreement on 13th October (after settling the point that Greek exports by sea would not be exempt from contraband control). Two matters were outstanding in the discussion that followed—Greek shipping and Greek tobacco, the latter being Greece's most important crop ('the whole Greek economic system depends on the export of tobacco to Germany'). The British proposals had to be considered in relation to the Greco-German agreement of 23rd August 1939, and the question was asked, whether in the case of a possible breach of commercial relations with Germany, Great Britain would give 'corresponding assistance' (this might involve a purchase of £5 millions worth of tobacco).

The agreement was signed on 26th January 1940; its clauses, apart from the usual ones, included the purchase by Great Britain of chrome up to 55,000 tons, and colophane up to 4,000 tons per annum; and a minimum of £500,000 worth of tobacco. One of the accompanying letters allowed 1,000 tons of chrome to go to Germany in spite of a *nil* quota on list A; others dealt with the supply of coal to Greece, trade with the Greek islands, and the bigger subject of help to Greece in the case of a rupture with Germany. By a shipping agreement signed at the same time, sixty Greek sea-going vessels were to be chartered to the British authorities. Steps were taken to work out the agreement in the succeeding months; but negotiations, asked for 'impérieusement' by the Germans and begun on 27th May at Athens, led to a request by the Greek Government for permission to increase the quotas to Germany chiefly of oils and minerals. After consideration, some concessions were agreed to by the British. With the closing of the Mediterranean in prospect it became more difficult for the Greeks to resist Germany's 'truculent attitude'; and though M.E.W. could claim (3rd June) that it had relieved the Greeks considerably in the matter of contraband control and had arranged the purchase of large quantities of magnesite and chrome, sultanas, currants, tobacco, and olive oil, it seemed doubtful whether they

would be able to hold out much longer. They concluded a two-months' agreement with Germany, but this merely provided a temporary breathing-space. The Greeks were also anxious to acquire military supplies in view of the possibility of war with Bulgaria, and this also led them to request British agreement to concessions for exports to Germany in exchange for munitions. Britain was most reluctant to agree to these concessions, which would further whittle down the war-trade agreement, and at the end of June was still refusing to accept the view that the foundations of a war-trade agreement no longer existed, or that she could no longer give economic assistance. Here the matter rested for the moment, but in Greece, as well as in the other Balkan states; the fall of France and belligerency of Italy were to usher in a period of Axis domination and pressure fatal to British economic-warfare plans.

CHAPTER VII

EXIGENT ALLY: TURKEY

WHEN the Ministry looked south of the Balkans it found a more encouraging situation. Allied economic-warfare policy during the first phase of the war was undoubtedly assisted by the close political relations with Turkey which France and Britain had established in the provisional agreement of 12th May 1939, and the final agreement of 19th October. But Turkey did not enter the war; and although her canny and hard-bitten leaders understood well enough that it was inadvisable to supply their potential enemy with the sinews of war, they were also persuaded that their Allies should not allow them to suffer for their action. The Allies did not regard this attitude in its extremer form as either reasonable or practicable, and this irreconcilability of viewpoints continued to complicate negotiations on economic-warfare questions between the two countries throughout the war.

It is not possible to sketch here even in outline the evolution of the economic and foreign relations of the new Turkey, but in considering war-time developments it is necessary always to keep in mind the austerity with which the drive for political and economic independence had been conducted since 1922, and the constant watchfulness against foreign domination in both spheres which had been so important a factor in the psychological heritage of the new generation of Turkish leaders. The building of a prosperous westernized state out of the ruins created by eight years of continuous war had been hampered by a determination to avoid as far as possible the old dependence on western loans, advisers, and concessionaires; belief in the unlimited resources and resourcefulness of Britain and other western powers remained, and suggested tough bargaining as the highest patriotism. This intense nationalism, built on a suspicion of the European powers with whom it was nevertheless desired to cooperate, meant that the alliance with Britain and France was a matter of the purest expediency for Turkey, and as yet had no basis of sentiment or habit to which the British in their proposals could appeal.

In any case the degree of pressure which the Allies could exert in their bargaining with Turkey was limited by two factors. In the first place Turkey was still mainly an agricultural country, and could be regarded as self-sufficient as far as the maintenance of her existing standard of living was concerned. In the second place, Germany, as a

result of her purchasing policy and clearing system, had secured a preponderating share in Turkish trade, and this had been accompanied by the impregnation of the country with German capital and technical aid. In 1937 the Allies had supplied only fourteen per cent. of Turkish imports and had taken only eighteen per cent. of her exports, as against forty-four per cent. supplied by, and thirty-nine per cent. taken by, the Germans. Of the Allied countries, the United Kingdom was the most important supplier of Turkish imports, sending cotton yarns and tissues, woollen and worsted yarns and tissues, machinery, chemicals, and vehicles. British India supplied the bulk of Turkish requirements of spices, hemp, flax, jute, and tea, but except for spices and jute these commodities could easily be replaced by Turkey from other sources. Allied imports from Turkey consisted mainly of dried fruits, cereals, and tobacco. Germany, on the other hand, supplied 78 per cent. of the total Turkish imports of wool yarns and tissues, 69·7 per cent. of her iron and steel, 61 per cent. of her machinery and apparatus, and 55·4 per cent. of her chemicals. In return Germany took 75 per cent. of Turkey's exports of raw wool, 70 per cent. of her raw cotton, and chrome—which amounted to 53 per cent. of Germany's imports. Germany also imported Turkish skins, cereals, and dried fruits.

The British position had been strengthened by three credit agreements signed on 27th May 1938. These were: (1) an agreement between the Turkish Government and the Export Credits Guarantee Department, relating to the export to Turkey of goods manufactured in the United Kingdom to the value of £10 millions; (2) a trade and clearing agreement between the two governments supplementing the earlier agreement of 2nd September 1936, and providing for the reduction of outstanding arrears; (3) an agreement enabling the Turkish Government to order warships and other war material in Britain on credit terms. After the signing of the provisional agreement of 12th May 1939 it was assumed that Turkey would enter the war if it broke out; in this case a war-trade agreement would not be necessary, but as her economic relations with the enemy would automatically cease, the question of economic assistance would become of still greater importance. The Treasury's view, however, was that owing to exchange difficulties which were already great in the pre-war period, and would be very much greater in the event of war, it would be impossible to compensate other countries for the loss of their normal trade without seriously crippling Britain's own war effort. When, in September, Turkey remained neutral, it became even less possible to contemplate complete compensation for her losses in trade with Germany.

In June 1939 the Turkish General Staff seemed prepared to co-operate fully in economic-warfare measures and asked the British

Admiralty to send complete proposals for the formation of a contra-band-control organization to deal with traffic through the Bosphorus and Dardanelles. They asked that these proposals should cover the functions, administration, composition, and methods of working the control; they were particularly anxious for suggestions as to personnel required and the proportion which the Admiralty considered should be British. Under the terms of the Montreux Convention Turkey was in the position of a territorial sovereign with regard to shipping passing through the Bosphorus and the Dardanelles, and was entitled to impose what conditions she liked as to the use of her own ports and waters. The actual ruling under article 5 of the convention was that, if Turkey were a belligerent, non-enemy merchant vessels 'shall enjoy freedom of transit and navigation in the Straits on condition that they do not in any way assist the enemy'. This gave to Turkey more than the ordinary belligerent rights, and the British authorities were, naturally, anxious that full advantage should be taken of the position. On 7th August a representative of the Foreign Office, Mr. J. W. Nicholls, arrived in Ankara, and during the course of discussions with the Turkish authorities found that they knew little or nothing of the problems of economic warfare. The highlight of the proceedings was a meeting with some twenty Turkish officials at which he had to give a lecture on British plans and intentions. He recalls that afterwards there was a silence, broken after a very long time by the senior Turkish official, who asked, 'Tell me, Mr. Nicholls, can we really do all that to the Italians?' But the Turkish authorities soon realized the importance of economic warfare, and 'showed every disposition to follow our lead'; they would no doubt have done so if they had entered the war.

With the conclusion of the Russo-German pact of 23rd August 1939 and the decision of the Turks to remain neutral, the problem of restricting Turkish exports to Germany of vital war materials became urgent. The Ministry had three aims: (1) to secure a guarantee from Turkey against the re-export to enemy destinations of goods imported from overseas; (2) to restrict exports of Turkey's own key products to Germany; (3) to limit to pre-war figures Turkey's exports of her key commodities to European neutrals. An excellent first step was taken by the Turks themselves when the Turco-German trade treaty expired on 31st August. They refused to renew it, putting all trade with Germany on a compensation basis; this brought trade almost to a standstill, although a limited amount continued through the Czech clearing. But anxiety in Turkey over the disposal of surplus commodities at once became acute, and there was every reason to fear that, if the Allies were not able to find a market for them, exports to Germany would be resumed. On 6th September the British ambassador in Ankara sent an urgent telegram advising large purchases of the

more important of these commodities—raisins, figs, tobacco, hazelnuts, mohair, wool, and cotton—as he feared that otherwise large quantities would find their way to Germany through Italy or the Balkans. On 10th September he again reported that the situation in the areas where quantities of sultanas, figs, and hazelnuts were awaiting shipment was fast becoming critical. Many growers could not obtain advances to enable them to harvest their crops and considerable losses were likely to result, the immediate effect of which would be to bring about ‘the unpopularity of the government and its policy, not to mention the openings for German propaganda’. He was convinced that immediate large purchases of these goods would go a long way towards assuring more wholehearted Turkish co-operation and suggested that the 12 million lire blocked in Turkey under the clearing schemes might be used for the purpose. On 16th September he was informed that the Ministry of Food was considering the purchase of 11,000 tons of sultanas and possibly 5,000 to 7,000 tons of figs, subject to an agreement being reached with regard to the allocation of the sterling used for the purchase.

The discussions that followed on financial and commercial questions were mainly a matter for the Treasury and the Ministry of Food, M.E.W.’s chief interest being to encourage the purchase of dried fruits in order to prevent the sale of chrome to Germany. Discussions on details of the May agreement continued in a most friendly atmosphere and the final agreements were initialled on 29th September. Signature of the treaty was postponed for some weeks during M. Saracoglu’s visit to Moscow, but when the Russo-Turkish negotiations broke down the Anglo-French-Turkish treaty was signed, on 19th October. The treaty provided for French and British assistance to Turkey in the event of aggression by any European power against Turkey, and it provided for Turkey’s military assistance to the other two signatories in various circumstances. Turkey was not to be required to take any action which would involve her in war with Russia. A special financial agreement was attached to the treaty, providing for (1) a credit of £25 millions by the British and French Governments to cover the supply of war material; (2) a loan of £15 millions in gold by the British and French Governments to be repaid in twenty years, the service and amortization of the loan being effected in Turkish pounds which were to be utilized for the purchase of tobacco or other Turkish products; (3) loans equivalent to £1½ millions by the Turkish Government and £2 millions by the British Government to be used in the first place for the transfer of British and French commercial credits recorded in the clearing account on 19th October 1939. By a secret suspense clause, however (Article VI), the treaty was not to come into force until Turkey had been supplied with material required for the defence of her Thracian frontier.

Discussions about the limitation of chrome exports to Germany were already taking place in Ankara, and the Ministry was anxious to take advantage of the general feeling of goodwill to start comprehensive war-trade discussions as soon as possible. But it was finally decided that as chrome was by far the most important of all Turkish exports to Germany it might be best to seek agreement on this point and to leave the more general discussions until a later date. On 26th October the Turkish Government agreed to cease the export of chrome to Germany and to restrict the export to neutrals in Europe to quantities to be fixed by the British Government, provided that the latter guaranteed the export from Turkey of not less than 200,000 tons a year. The British agreed to these proposals on 30th October, but the Turks then raised their terms, and the negotiations dragged on for another two months. Conversations between the Turkish Foreign Minister and the German ambassador were reported on 16th November, and on the same day the British ambassador also reported that the Turks were attempting to make it a condition of their general undertaking not to export chrome to Germany, that the British Government should make large purchases of figs, raisins, hazel-nuts, and tobacco. The ambassador, after indicating the terms that Turkey might accept, advised the purchase of 8-10 million Turkish pounds worth of tobacco, 10-15,000 tons of hazel-nuts, 20,000 tons of raisins and 10,000 tons of figs.

This attempt was not well received in London, where there was a general feeling that the Allies had already 'done quite well for the Turks'. The French and British between them were already buying £1½ millions of tobacco a year, the French had agreed to buy the entire cotton export surplus, and the Ministry of Food, in spite of substantial purchases already made, was prepared to consider buying further stocks of raisins and figs if an agreement on price could be reached. There was no hope that the Allies could completely replace Germany as a market for Turkish goods unless they were prepared literally to buy them and sink them in the sea, and moreover it was felt that as an ally Turkey was under a moral obligation not to supply vital commodities to Germany, and should be prepared to shoulder some at least of the burdens of war. The Foreign Office telegraphed to Ankara in this sense on 18th November and authorized the ambassador to press for the immediate conclusion of the agreement, subject to the modification that the British Government could not agree that Turkey should increase her chrome production over 200,000 tons a year so long as it was buying any part of her output under the guarantee. On 21st November the ambassador reported that the Turkish Government was likely to insist on its right to export chrome in excess of the 200,000 tons produced in any one year and to demand some modification in relation to payments. As the

Turkish Secretary-General was expected to arrive in London on 28th November for general discussions on trade and financial matters it was decided that the whole question should be held over until his arrival.

The Secretary-General, M. Numan Menemencioglu, was to prove a resourceful and at times exasperating negotiator, and the discussions, which lasted for the next five weeks, produced some plain speaking on both sides. In his first meeting with Lord Halifax on 29th November M. Menemencioglu, after discussing the armament and financial questions, stated baldly that Germany refused to make bulk purchases of Turkish commodities unless they included such items as chrome and olive oil, and that if Germany was to be deprived of Turkish chrome, Turkey must find a market in Great Britain and France for her other exports. If they could not provide this market it would be necessary to consider some arrangement whereby a certain quantity of chrome should be allowed to go to Germany. He told Mr. Cross next day that the Germans were now offering to supply Turkey with the arms which she badly needed (with the exception of certain heavy guns) but were refusing to accept payment in Turkish produce unless this included 150,000 tons of chrome, though personally he thought that they would accept 50,000 tons. In the meantime the Turkish export season had begun and certain staple crops were awaiting the market which they had found in Germany in previous years.

The Turkish Government was clearly out to make the most of the situation, although it was genuinely concerned with the state of the country's defences. Following a report that it was proposing to supply 30,000 tons of chrome to Germany after German deliveries of outstanding orders of war materials had been completed, the Foreign Office on 7th December said that the British Government would regard it as a serious breach of faith if Turkey made any such arrangement with Germany while negotiations were taking place in London. On 9th December the Turkish Foreign Minister told the British ambassador that his government was quite prepared to face a rupture with Germany but only if supplies of armaments and factory equipment could be obtained elsewhere, and an internal crisis avoided by the immediate sale of agricultural products.

M. Menemencioglu at first objected strongly to a proposal that the British should market all Turkish chrome to Scandinavia, but he agreed later to consider a formula whereby Turkish sales of chrome to countries other than the United States would be subject to the Ministry's consent in each case. But he still insisted on an Allied purchase of £2 millions of dried fruit as a *sine qua non* of the complete withholding of supplies of chrome from Germany. It would have been possible to call M. Menemencioglu's bluff by refusing the dried-fruit

agreement: but it was not quite certain that he was bluffing, and the Committee of Imperial Defence was anxious that the 'suspense clause' of the special financial agreement of 19th October should be eliminated as soon as possible. Accordingly the dried-fruit obligation was accepted in principle, and when, in the middle of December, M. Menemencioglu left for Paris to continue the negotiations there, it was assumed in the Ministry that the substance of the agreements had been settled. But it was found, when the Ministry's representatives reached Paris, that the Turks were putting forward entirely new demands, and, what was worse, were being energetically supported by the head of the French delegation, who on more than one occasion 'argued the Turkish case in full plenary session against ourselves, with an effectiveness that was generally lacking in his exposition of our arguments'. On 21st December M. Menemencioglu made a bold attempt to argue that the agreement in London to purchase chrome was not for two years but for twenty, but this claim was gradually whittled down to approximately the original figure. Later events showed that the British would have been well advised to tie up Turkish chrome for a longer period; they were to pay heavily for their caution in January 1940.

Finally, on 2nd January 1940, he offered drafts of separate agreements for chrome and dried fruits; the chrome agreement was to be for two years with or without the option to both parties to extend for a further year, and was to be confidential; the dried-fruits agreement was to run to the end of the export season following the cessation of hostilities. The British Government agreed to accept the drafts, provided that a clause was inserted in the dried-fruits agreement to the effect that the British obligations should in no case continue after the end of the 1942-43 export season. This was agreed to, and took the form of a 'break clause' in the dried-fruits agreement, under which either party would have the option of terminating the agreement at the end of the 1942-43 export season. The Turks, however, managed to win several minor concessions, namely, (1) the figure for stocks of chrome available in Turkey at the time of the agreement was fixed at 50,000 tons; (2) the French proposals for prices and terms of payment for their purchases of chrome were withdrawn; (3) a provision that British and French purchases of chrome should be in a fixed proportion of 11 : 4 was inserted; (4) the re-exportation of chrome and dried fruits bought under the agreement was prohibited. The agreements on chrome and dried fruits, and the various financial agreements, were finally signed in Paris on 8th January, together with a protocol cancelling the 'suspense clause'.

It was a condition of the chrome agreement that the price to be paid for chrome should be at the London Metal Exchange rate. Almost at once the Turks attempted to raise the price, and the matter

continued under discussion for some months. It was learned on 30th May 1940 that the French company which had been negotiating with the Eti Bank on behalf of the Allies, had offered a price of 105s. a ton for 90,000 tons. This French offer, although considered by the Ministry to be 'outrageously and unnecessarily high', made it certain that the Turks would not consider a lower price. Negotiations were, however, still proceeding when the collapse of France altered the whole position.

The chrome agreement was to remain the one major achievement of the Allies in their negotiations with Turkey before the fall of France. At the end of December 1939 there were indications that commercial exchanges between Turkey and Germany were to be resumed on as large a scale as possible under existing transport difficulties. Immediately after the signature of the chrome agreement, therefore, the Ministry turned to the question of a general war-trade agreement which would tie up the remaining Turkish exports and prevent the conclusion of an agreement between Turkey and Germany. But here it was trying to make bricks without straw: there was hardly any form of pressure or inducement that it could bring to bear. It was impossible to withhold from an ally the supplies necessary for her rearmament; it was in any case impossible to send her all the supplies she needed. It was impossible to take all the Turkish exports which would normally have gone to Germany, and it was also impossible for geographical reasons to bring Turkish exports under the Allied contraband control. Accordingly in seeking a war-trade agreement with Turkey the British Government had to ask for a great deal and could offer little in return. Turkey's most pressing need was for spare parts for the German machinery with which her factories were mainly equipped, and she also claimed that an arrangement with Germany was necessary in order to ensure the execution of certain Government orders placed before 31st August 1939. It was recognized that there was no hope of stopping all trade between Turkey and Germany, but the British ambassador was instructed to propose a separate agreement covering olive oil, vallonias, mohair, cotton, and wool.

Turkey wanted from Germany £T2 millions¹ worth of locomotives and railway materials as well as trucks and medical supplies, and a few days after the signature of the agreement of 8th January it was discovered that she was negotiating two commercial agreements with Germany. The first provided for the export to Germany of the following goods, valued in Turkish pounds: tobacco (£T4,100,000), sultanas (£T900,000), figs (£T300,000), industrial figs (£T400,000), hazel-nuts (£T800,000), olive oil (£T250,000), sesame

¹ During the war the conversion rate varied between £T5·05 and £T5·20 to £1 sterling. £T5 : £1 may be adopted throughout for ready reckoning.

seed (£T100,000), oil cake (£T80,000), and cotton (£T70,000), in return for German goods to the value of £T7 millions. The second agreement covered the importation of spare parts from Germany to a value of £T2 millions against the export from Turkey of a similar value in skins, tanning materials, opium, hemp, olive oil, and mohair. The British ambassador was told on 29th January that £T5 millions' worth of German goods had already been released.

The Ministry had presented the draft of a war-trade agreement to M. Menemencioglu in December, but he had refused to discuss it at that stage. And it soon became clear in January that there was little hope of a total prohibition of export of the five commodities in which the Ministry was specially interested. The Turkish Foreign Minister continued to assure the British ambassador that he was doing his best to ensure that as little as possible of the five commodities should go to Germany, and he gave the embassy on 3rd and 13th February two lists of Turkish requirements for the following six months, and promised not to conclude any agreement with Germany until he had received an answer from the British Government. The first list included tin, tinplate, aniline dyes, lubricating oils, constructional steel, and bichromate of soda; the second a long list of chemicals. The British reply (on 13th February) was not very satisfactory. 200 tons of tinplate and 30,000 tons of iron and steel (most of it unsuited for constructional purposes) could be supplied; lubricating oil, if the Turks would pay in dollars; and aniline dyes, oropon or its equivalent, and some leather varnishes. Most of the chemicals could be supplied by Boots and other firms. The Ministry knew that Germany could not supply tin, nor, probably, lubricating oil or steel in any quantity. On 19th March, after much prodding, the Turks also supplied details of the list of their requirements from Germany. These consisted of spare parts for guns and aeroplanes of German make; motor vehicles and spare parts; plant and accessories of factories already under construction; railway and other bridges; spare parts for wireless stations; accessories for ships, and so on. The British authorities came quickly to the conclusion that they could not supply more than five per cent. of this list.

As a result it was decided in April, after consultation with the British ambassador during a visit to London, that the Allies would have to modify their demands considerably if an agreement was to be concluded. It was, indeed, obvious enough by this stage that the draft agreement had hitherto consisted entirely of undertakings by the Turkish Government with no *quid pro quo* from the Allies. Recently there had been a number of complaints arising out of the unloading of goods consigned to Turkey at the Piræus, and it appeared therefore that the Allies could offer to facilitate the passage of Turkish goods through the contraband control in return for an

agreement. This, however, was not likely to be sufficient for the purpose, and it was decided to modify the request that the export of vallonina and olive oil to Germany should be entirely prohibited, while continuing to insist on the prohibition of export to Germany of wool, cotton, and mohair. The other clauses of the earlier draft agreement were to remain: that is to say, it was hoped to receive an undertaking that Turkish exports to non-belligerent European countries both of vallonina and olive oil and of wool, cotton, and mohair would be restricted to the average annual amounts of 1935-38. Instructions on these lines were sent to the ambassador on 19th April.

Presentation of these proposals was delayed while the French ambassador waited for certain instructions from his government, and in the meantime, on 26th April, M. Menemencioglu told the British commercial secretary that the Turkish Government was considering the advisability of linking the Turkish currency with the sterling-franc exchange. He said that to link Turkish currency with the wildly fluctuating dollar gold rate was becoming impracticable, and as Turkish economic policy, like its political policy, was directed towards Great Britain and France he had no desire to reduce the Allies' purchasing powers in Turkey by increasing the value of the Turkish pound by following the dollar. He made it clear, however, that Turkey would expect some reconsideration of the British export-licensing system in return, and the French ambassador thought that there would also be an attempt to secure further credits. The French Government was willing to try to deliver to Turkey certain goods previously supplied by Germany, and hoped also to persuade the Turkish Government to insist on something similar to the Le Bon formula for re-exports. At the end of May the British and French ambassadors agreed that it was desirable to link together the war-trade question and the future of the Turkish pound, and on 6th June the Ministry agreed to leave the matter to the ambassador's discretion, although it made it clear that it was not prepared to make financial concessions in return for the war-trade agreement. A summary of Allied proposals was accordingly submitted to M. Menemencioglu on 11th June.

The collapse of France shortly afterwards prevented any further progress in these negotiations, and in the meantime the Turkish Government had completed its discussions with the Germans. On 30th May M. Saracoglu had made it clear to the two ambassadors that the agreement was to be expected shortly. An '*ad hoc* commercial arrangement' was in fact concluded between Germany and Turkey on 12th June. This stated that the two governments were agreeable that the economic discussions which had been proceeding between them for several months should be completed without delay, and

were in agreement that the volume of commercial exchange between the two countries should be fixed at £T20 millions for each country's exports to the other. There were further negotiations in which certain concessions were secured by the Germans, and the new Turco-German commercial and payments agreement was finally signed at Ankara on 25th July. The effect of this on British policy will be discussed in Chapter XVIII.

CHAPTER VIII

EQUIVOCAL NEUTRAL: ITALY

(i)

THE conduct of Allied economic-warfare relations with Italy between September 1939 and June 1940 was based on considerations of high policy which lie outside the scope of this work. On the evening of 31st August 1939, Count Ciano, the Italian Minister for Foreign Affairs, 'speaking with obvious emotion', had assured the British ambassador, Sir Percy Loraine, that Italy would not attack either France or the United Kingdom; on the following day it had been announced that Italy would take no military initiative. So the war began with Italy neither an all-out friend nor an all-out enemy of either side; her close treaty and political relations with Germany since 1937 were balanced by her many recent signs of uneasiness at the prospect of involvement in a major war, and it could not be forgotten that her phase of neutrality in 1914-15 had been the prelude to her abandonment of the Triple Alliance and her eventual entry into the war with the British and French. The line taken by the British Government was based on the Foreign Office assumption, which the War Cabinet accepted, that there was even some prospect that Italy could be brought into the war on the Allied side. A Foreign Office telegram on 3rd September to Sir Percy Loraine asked how in his opinion the British could best proceed 'with a view to clarifying and stabilizing her attitude and if possible bringing her in on our side' and pointed out that her present anomalous position, which was not one 'we are likely to be able to accept indefinitely' would in any case have to be considered in the near future in connection with the Allied blockade policy. The ambassador advised extreme caution in applying blockade measures, which might easily bring Mussolini down on the wrong side of the fence on which he was obviously sitting. He thought that if Germany succeeded in smashing the Poles before the winter the position would be extremely grave.

As events turned out the Polish disaster did not bring Mussolini into the war, and (until February 1940 at all events) favourable indications as to Italy's intentions were fairly numerous. Later, Sir Percy Loraine summed up British policy in the following words.

It was therefore the policy of His Majesty's Government, while fully safeguarding their belligerent rights, neither to seek nor to provoke a

conflict with Italy, and to use all honourable means of amicable negotiation, not only for the solution of such difficulties as might arise, but also for the adjustment to mutual advantage of the economic relations between the two countries which war conditions were bound to unsettle.

The adoption of this policy automatically ruled out various more drastic courses which were discussed from time to time both inside and outside the Ministry. These were usually based on the argument that in view of her more or less complete dependence on outside sources for her coal, iron, oil, and other materials, and in view of her extreme shortage of these essentials in September 1939, Italy could not go to war at all if her imports of essential war materials were drastically rationed.¹ It was further argued that her declaration of non-belligerency was an open admission of loyalty to her Axis partner which automatically negated her right to claim the ordinary privileges of a neutral under international law. Whether these views were valid or not, the fact remains that British policy was based on the assumption that it was, on balance, desirable to treat her as a genuine neutral, and that the exercise of Allied belligerent rights should be on conciliatory lines.

The Chiefs of Staff, who appear to have exaggerated Italy's naval strength, agreed with this policy at the beginning of the war, but without, it would seem, giving adequate attention to the economic factors. They were amply provided with papers on the point circulated prior to the war by the I.I.C., and after 3rd September 1939 by the Intelligence Department of the Ministry, showing how inadequately prepared for war Italy was on the economic side at this period. We have seen that contact was not established with the Joint Planning Staff of the three Services by M.E.W. until November 1939, when an M.E.W. intelligence official was appointed as liaison officer, and by then the policy towards Italy had been decided on and put into operation. During the summer of 1940, when the M.E.W. Intelligence Department was in closer contact with the joint planners, it became clear that during the last months of 1939 the Chiefs of Staff had never squarely faced, from the military point of view, the question of whether the risk of bringing Italy into the war as an enemy would have been worth running in order to limit her freedom to increase her economic potential for war. It is probable that if the question had been properly discussed at the joint planning level in the first weeks of the war the result would not have materially affected policy, but the episode was quoted with effect by the M.E.W. Intelligence

¹ In the case of oil, Italy had no indigenous crude-oil resources apart from the negligible production of a small field at Emilia (near Genoa). She gained access to a small output of 65,000 tons in Albania (Devoli area) in 1938. In September 1939 the stocks which she had been accumulating amounted to rather more than two million tons—equivalent to about nine months' peace-time consumption.

Division in later phases of the war as an example of the need to ask the right questions of the Intelligence staffs at the right time.

It can be said in defence of the War Cabinet's decision that Italy remained an economic liability to Germany, and that she entered the war in June 1940 not because she felt strong enough to beat France and Britain, but because she thought that they were beaten already. There seems no doubt also that Mussolini was quite as touchy and incalculable as the Foreign Office believed, and quite capable of a stampede into war if his sense of personal dignity or national honour were flouted, whatever the state of Italian economy. Forcible rationing therefore on a sufficiently serious scale to keep Italy's stocks at the low September 1939 level might well have goaded the Duce into war more quickly; whereas the policy actually followed, if it had been supported by Allied victories or even by effective resistance in the summer of 1940, might have left him sitting indefinitely on the fence. What seems quite evident is that Italy was not much better prepared for a long war in June 1940 than she had been in September 1939, and that this fact was not decisive with Mussolini, although it would probably have been so if his influence had in some happy way been removed.¹

This does not mean that Italy was treated for blockade purposes any differently from the other adjacent neutrals: the same attempt was made as in other cases to prevent supplies from reaching Germany through the neutral's ports. The difference lay in the intentions of the neutrals themselves; while all the others wanted passionately to remain at peace, Italy was clearly using her position to build up her own stocks and, even without supplying Germany, to put herself in a position to fight later on Germany's side. But in view of the major decision on policy, the risk that she would do so had to be taken. The efforts of the Ministry were therefore limited to the solution of two problems: (1) the exercise of contraband control on lines which would satisfy the normal economic-warfare requirements of the Allies; (2) the adjustment to war conditions of the economic and trading relations between the two countries. The two questions were closely related, for it was hoped that increased Allied purchases would go some way towards smoothing over difficulties connected with the blockade.

Anglo-Italian trade was regulated by the commercial agreement

¹ Inside M.E.W. there were protagonists of the view that the best way to stop Italy from entering the war on Germany's side was to limit her economic capacity for fighting, but others took the view that a conciliatory policy would keep her neutral. There were also interdepartmental differences over these issues. The Treasury, while recognizing that certain Italian officials were friendly and anxious to collaborate with the Allies, always doubted whether these officials would, in the trade negotiations which began in October 1939, ever be allowed to make substantial offers. The M.E.W. officials immediately in charge of the Italian negotiations were, for a time, more optimistic. There was considerable public criticism of the policy of economic collaboration with Italy: cf. P. Einzig, *Economic Warfare, 1939-1940* (1941), p. 26.

of 18th March 1938, of which, however, the Italian import quotas had been revised by an exchange of notes in March 1939. Italy's main import from the United Kingdom was coal. In pre-sanction years Great Britain had supplied on an average over fifty per cent. by value of Italy's coal imports, and although this had fallen by 1938 to twenty-one per cent., Italy might wish to increase this amount in time of war, owing to possible difficulties in maintaining her coal imports from Germany, which came mainly by sea. Of the eight million tons imported from Germany in 1937, about 2½ million tons only had been sent by rail, four million tons had been shipped from Rotterdam, and the remainder had been shipped from other (mainly German) ports. For these shipments Italy would now have to rely on ships flying neutral flags, which, in view of the British plans for chartering excess neutral tonnage, would probably mean ships flying the Italian flag only, unless the already overworked railways could be induced to transport a larger percentage.

The chief Allied imports from Italy were foodstuffs (mainly fruits, fresh and canned vegetables, cheese), artificial fibres and wool yarns (largely produced from imported raw materials), hemp, and sulphur. Germany also took a large percentage of most of these commodities: thirty-seven per cent. of citrus fruits and fifty-eight per cent. of other fruits, seventy-five per cent. of hemp, forty-four per cent. of silk, and forty-three per cent. of nuts. In addition to coal, Germany supplied Italy with machinery and apparatus (amounting in 1938 to sixty-seven per cent. by value of Italy's total imports of these commodities), wood (forty-eight per cent.), iron and steel (thirty-eight per cent.), and chemical wood-pulp (twenty-two per cent.). Of these German supplies only the coal could conveniently be supplied by the Allies. Italy thus relied on Germany for some twenty-seven per cent. of her imports, as against fourteen per cent. from the Allies, while Germany took in turn nineteen per cent. of Italian exports, compared with fourteen per cent. taken by the Allies.

Although the Italians maintained secrecy regarding the position of the German-Italian clearing account, the British embassy learned on good authority in September that German indebtedness to Italy amounted to nearly 2,000 million lire (approximately £27 millions). Even if this figure was exaggerated or 'misleading' there seemed reason to believe that a large Italian balance was blocked in Germany, and that Italy was anxious to reduce the amount by any possible means. She certainly seemed in no mood to allow the creation of further debts in Berlin. Signor Giannini, the deputy head of the Italian State Railways, who was in London in September, even said that the Duce had been 'beside himself with rage' at Hitler's attack on Poland, that he had 'now done with Herr Hitler for good', and that it would be the Italian policy 'to keep out of trouble, to

trade as much as possible with England and France and . . . to curry favour with the Allies'. So there was reason to hope that British attempts to discuss trade questions with the Italians would not be rebuffed. Giannini stated that Italy expected to be treated 'firmly as a neutral', advised against 'too much official negotiation on war trade and blockade matters' and hinted that British orders for purchases in Italy would be given preference over German.¹ It was decided from the start that the British Government could not invite a great power to sign a preliminary war-trade agreement in the form offered to the smaller neutrals, and that the suggestion would 'hurt Italian susceptibilities'.

Reports that the *Rex* was sailing for New York to fetch a special consignment of high-grade cotton for Germany and that Italy had begun to order apparently large quantities of metals and petroleum emphasized the need for a quick decision with regard to the 'rationing' of Italy. It was decided that discussions might with advantage be begun on an informal basis by the ambassador himself, assisted by a representative of the Ministry. Mr. Francis Rodd (now Lord Rennell) was selected, both for his general knowledge of the Italian business world and his personal connection with Sir Percy Loraine, which would give his presence in Italy an unofficial aspect. Difficulties which had arisen during September over the Anglo-Italian clearing account led to the decision to send Mr. Playfair, of the Treasury, to Rome as a second 'unofficial' expert. Playfair and Rodd left England at the end of September.

A rather more elaborate arrangement was, however, soon made. This had its origin in a suggestion made by Senator Giannini to Mr. Rodd on 7th October for the creation of an Anglo-Italian Standing Committee, on lines similar to the Franco-Italian Standing Joint Committee, which had been set up some years before to deal with commercial questions. A formal proposal to this effect was made on the 8th. The draft agreement submitted by the Italians was between heads of states, and it authorized the setting up of a permanent Anglo-Italian Economic Committee within one month. The committee would consist of British and Italian government commissions having power to co-opt experts, and would have as object 'to supervise the working of existing economic agreements between the two countries and to modify them in order to adapt them to existing circumstances'. The committee's further function would be that of 'adopting whatever measures are necessary to facilitate and improve maritime and railway traffic between the two states and in general to adopt all measures which in any way may serve to improve economic collaboration between the two countries'.

¹ This Giannini was a brother of the Senator Giannini who represented Italy on the Standing Committee.

The British had three objections to this draft: first that it might 'be regarded in Germany as a diplomatic sequel to the Turkish treaty and might call down German wrath upon Italy to an extent which the Italian authorities had not appreciated'; secondly, that the form as between heads of states involved recognition of the King of Italy as King of Albania; and thirdly, that the powers to be conferred on the committee went further than the British considered desirable. A revised British draft in inter-governmental form making the committee 'a channel of consultation for the submission of recommendations rather than an executive organ' was accepted by the Italians and signed on 27th October. Mr. Rodd was appointed acting chairman and the provisional constitution of the committee on the British side included the commercial counsellor and naval attaché at Rome and Mr. Playfair. The Italian Government appointed Senator Giannini (Ambassador) as their chairman, together with the General Director of Trade at the Ministry of Trade and Exchange (Masi) and the Director-General of Exchange. It was intended that the constitution of the committee should vary from time to time according to the nature of the expert advice required. A petroleum sub-committee was set up and met on 31st October.

The setting-up of the committee represented the first considerable step by the two governments to grapple with the problems of their wartime economic relations; difficulties under the two heads of contraband and trade were already attaining serious proportions. The importance of the committee must not be exaggerated; it did, however, create a link between the two governments. On trade matters, and to a large extent on contraband questions, the committee as such did not function, as the representatives of the two powers found it more convenient to negotiate directly with each other.

It will be convenient at this stage to trace separately the two main lines of negotiation—concerning contraband control and war-trade problems—down to the beginning of February, when Mussolini's vetoing of proposals for agreement in both spheres brought to an end the first main stage in the work of the committee.

(ii)

The story of the British purchasing policy in Italy after the outbreak of war was to some extent one of lost opportunity. The obstacles to progress were certainly not all on the British side; exchange difficulties, and the continued uncertainty as to how far Italian action was influenced by concealed motives of political expediency, played probably as great a part as the slowness of British agents to negotiate.

There were, however, various indications from the early days of hostilities of willingness on the part of Italian suppliers to sell goods, including even armaments, to the United Kingdom, and the first phase of war-time trading difficulties seemed to have passed when in the middle of December the British Government was able to put a comprehensive scheme of purchases before the Italians.

Difficulties over the Anglo-Italian clearing account had existed before the war, and the sending of Mr. Playfair to Rome at the end of September had been due to the need for a speedy solution. At this stage the coal sub-account was about six weeks in arrears and sub-account D was five months in arrears. British coal exporters were threatening to stop delivery of coal to Italy unless the clearing continued to receive sufficient sterling, which had greatly fallen off since the outbreak of war. An immediate stoppage was only avoided when the Export Credits Guarantee Department was authorized to guarantee 100 per cent. of the shipments for one month instead of the normal seventy-five per cent. The Italians were asking for payment for purchases then being negotiated (e.g. Isotta engines) to be made in dollars, and were refusing to allow payment through the clearing. The difficulty regarding the coal situation was explained to Italy, who agreed on 26th September to accept payment for fifty per cent. of the engines through the clearing, but demanded the remainder in free sterling.

The French were already negotiating the purchase of tank wagons, locomotives, mercury, and hemp, but were rather 'provoking the Italians into offering them' than suggesting that France was in need of them. At the *Ministère du Blocus* it was proposed that liaison between the English and the French regarding purchases in Italy should take place through the French Mission in London (i.e. through M. Morand) rather than in Rome, as separate negotiations by England and France with the Italians might easily develop into an 'auction'. This arrangement might also save time: there were reports that Italy was negotiating the sale of 42,000 tons of hemp to Germany, and that an Italian emissary was leaving for Berlin on 10th October.

Preliminary discussions took place in Rome on 7th October between the British experts and Signori Masi, d'Agostino, Mastrocinque and others as to possible purchases of and sales to Italy. The Italians seemed able and willing to supply aircraft material, engines, hemp, mercury, sulphur-ochre, foodstuffs, raw silk, gloves, and unsweetened fruit pulp for jam manufacture. In return they wanted to purchase coal, and the existing quota of Newfoundland fish, merino wool, rubber, copper, nickel, tin, jute, oil seeds, mica, raw hides, Indian and Egyptian cotton, silver spruce, mineral oils, and cereals. They desired payment for British purchases in gold or United States dollars, but finally agreed to pass all purchases in

Italy through the Anglo-Italian clearing, provided that the British made provision for the use of sterling in the clearing for the purchase of Empire raw materials. The British agreed that some of the sterling in the clearing should be used for purchases in the sterling area and for Newfoundland fish; this meant excluding Canada and Hong Kong from the arrangement, but including sterling countries like Egypt and Iraq.¹

This was a reasonably favourable beginning, but after this the British purchasing programme developed all too slowly. On 12th October the British were asked to send experts to Rome at once to make arrangements for the purchase of hemp. Of the 50,000 tons available France wanted 20,000 tons and Germany was trying to purchase 42,000 tons, but Italy was willing to sell to the United Kingdom and was studying the use of Italian bottoms sent for coal to carry hemp. An Italian offer of aircraft material was also conveyed to the Air Ministry on 11th October. The hemp experts did not arrive in Rome until 30th October, and during the eighteen days' interval the Italians had been persuaded by the German commercial mission, headed by Dr. Clodius, to sell Germany a large proportion of the hemp surplus. On 22nd October the British ambassador in Rome had been informed of the decision of the War Cabinet to send representatives of the Air Ministry and Ministry of Food to Rome to negotiate purchases, but these had not arrived by 7th November. By this stage the French Government had concluded a contract for the purchase of aircraft, and other contracts were under discussion for the purchase of aircraft by the Yugoslav, Finnish, and Netherlands Governments. It appeared that the British were not only losing the opportunity of purchasing material they much needed, and allowing supplies to be pre-empted by the enemy, but were losing a valuable bargaining weapon in the negotiations over contraband control. Irritation caused by British slowness in investigating 'legitimate' complaints about contraband measures was certainly not being reduced by the slowness to place British orders in Italy.

Some British officials were by this stage convinced that the Italian Government was genuinely prepared to collaborate with the British efforts to place contracts for goods and services useful to the British war effort. It was reported from Rome on 8th November that Mussolini had appointed Signor Gianferrari the official representa-

¹ Mr. Playfair has given me the following comment on this paragraph. 'These conversations, covering the whole scope of Italian trade with the sterling area, went on at intervals until May 1940. We were never ready to do more than talk about much in the Italian list of demands, for several reasons: some of the materials cost dollars, some were extremely scarce, and most were obviously wanted in order to build up stocks against a possible war. As the months went by and the political situation worsened, the general trade discussions became less and less real, and though the façade was kept up to the end, both sides paid more attention to particular deals which could be closed quickly, before worse befell.'

tive of the Italian Confederation of Industrialists in London. His task was to co-ordinate British industrial purchases, especially armaments, and to act as Italian representative in negotiations with British firms and suppliers. So it seemed that Mussolini was taking a personal interest in the supply of armaments to Great Britain and that everything possible must be done to make Gianferrari's visit a success. On 20th November the competent Italian ministry was informed by the embassy in writing of the various categories and quantities of materials required. A French purchasing commission had opened offices in Rome, but as its activities were provoking pointed questions from the Germans it was decided that it might be wise, for political reasons, to continue the British negotiations through Gianferrari in London and the embassy staff in Rome.

Italy was now given a definite assurance that the British Government would be prepared to expend in Italy not less than £20 millions (exclusive of freights) in the twelve months ending 31st December 1940. An *aide-mémoire* was handed to Count Ciano on 16th December outlining the British proposals. It said that the British Government desired to place certain very large orders in Italy, but as the conclusion of individual contracts would take some time it was announcing its general plan for 1940 in order to enable the Italian authorities to forecast such purchases as they desired to make in the United Kingdom and the Commonwealth (excluding Canada) well in advance. This was, of course, on condition that the prices were reasonable; that the goods, and in particular the manufactured goods, corresponded to the British requirements; and that the dates of delivery were acceptable. The *aide-mémoire* also referred to the Reprisals Order, and its effect on the Italian coal supplies. Pending the conclusion of arrangements to make not less than eight million tons of British coal available to Italy, Great Britain would not in practice seize sea-borne German coal exports to Italy. Ciano remarked that 'it would help matters if we abstained from defining that period more precisely'. He did not raise any objection to the proposal to seize the German coal exports, and with regard to the *aide-mémoire* in general said that 'he thought our proposals were all right' but that he would have to submit the matter to Mussolini. On the 17th he told Sir Percy Loraine that he had shown the document to the Duce, 'who accepts it as a basis'.

Thus by the end of December 1939 headway was being made, but it was still not at all certain that a workable balance of trade could be established between the two countries under wartime conditions. Undoubtedly there had been delays on the British side, but it was not known whether the Italians would finally agree to the type of purchases that the British needed. The Ministry of Supply complained in the middle of December that the Italians would not

answer its inquiries or let it inspect equipment (especially anti-tank guns). It was stated later by Signor Masi that the Italian military authorities were placing difficulties in the way of sales of armaments to Britain. A general though momentary improvement in Anglo-Italian relations came at the end of December with a British decision to release various detained cargoes (see below); Italian irritation over contraband questions, which had seemed about to boil over, was slightly cooled by this step. But the only purchasing transactions which had been concluded were the Admiralty purchase of Isotta engines and sulphur, and mercury purchases by the Ministry of Supply. The Germans were still competing for Italian hemp, and the Italians wanted assurance of compensating supplies of jute from India before coming to terms over hemp with Great Britain. By the beginning of January 1940 the British were prepared, if necessary, to increase the offer of guaranteed expenditure on purchases in Italy to £25 millions, but this decision had not yet been communicated to the Italians. The Master of the Rolls, Sir Wilfrid (now Lord) Greene, who had been appointed British President of the Joint Standing Committee, had been due to take up his duties towards the end of December, but had postponed his departure until 1st January, as reports from Rome had stated that Mussolini was 'reaching a dangerous pitch of exasperation', and it was now hoped that his arrival in Rome, coupled with the easing of the tension by the releasing of the cargoes, might yet achieve results in the new year.

(iii)

In the meantime the application of contraband control in the Mediterranean zone had produced a series of Anglo-Italian crises. On 3rd September the Commander-in-Chief Mediterranean had given instructions that no Italian ships were to be interfered with. This was, however, not the Admiralty's intention, and had been ordered from an 'excess of caution'. On 6th September he was instructed by telegram that contraband control was to be applied to all ships 'without discrimination' but that ships in the Mediterranean, Gibraltar Straits, and Suez Canal area 'should not be sent in for examination unless openly carrying contraband or under suspicion of unneutral service'. Copies of manifests were to be obtained wherever possible 'subject to the overriding consideration of not provoking incidents with Italian ships'. It was clear, however, that this could be only a temporary measure. Reliable secret information had been received by the Ministry of Economic Warfare indicating that arrangements were being made for a large-scale evasion of British

contraband control by the diverting of ships to Trieste, and to Greek and Black Sea ports. Even Japanese ships, which did not normally call at Trieste, were being instructed to proceed there. There was also evidence of a large volume of commercial wireless communication between Germany and Greece. Unwilling as the British were to provoke incidents with Italy, an extensive leakage to Germany through Mediterranean ports would be too serious to be ignored.

Thus the British were faced with two main problems, both of which involved political considerations. The first and obvious one was to decide to what extent 'the full procedure' of contraband control could be applied to Italian ships, which would include the examination even of passenger liners and mails. Discrimination in favour of Italy would lead not only to leakage but also to protests from other neutrals or at least to demands for similar consideration. The other problem was that of controlling traffic in the Aegean. It was impossible to maintain a patrol in that region from Alexandria, and the distance from the northern Aegean to Haifa was too great for armed patrols to be provided on intercepted ships taken into that base. Another contraband-control base was clearly needed, and there were three possibilities: (1) Malta, which might not be wholly effective in controlling Aegean traffic; (2) a base in Greek territory, possibly Suda Bay, in Crete, thus covering the Kithera channels; or (3) a base in Turkish territory, either at Smyrna or the mouth of the Dardanelles. Any of these solutions might have political repercussions. The first might be considered provocative by the Italians and the second and third would involve infringement of Greek or Turkish neutrality.

It soon became clear, however, that the Italian Government was prepared to adopt, within limits, an accommodating attitude, and did not intend to challenge the general principle of contraband control. It appointed an admirable liaison officer, the Marchese Patrizi, to deal with contraband-control questions in London; he saw the appropriate officials of the Ministry daily, and did much to smooth out difficulties. Count Vitetti, the head of the general section of the Italian Foreign Office, said on 17th September that the Italian authorities had 'every desire to fall in line with the aims of our control and that instructions to Italian merchant shipping were being prepared in this sense'. He appealed to the United Kingdom to consider the establishment of a base at Port Sudan, owing to the delay and expense of diversion to Haifa of ships incoming from the East. The Italians showed 'no disposition to resent our control' and seemed only 'preoccupied . . . by the necessity of being in a position to reply to the eventual German charges of departure from strict neutrality'. They were apparently unaware that the British contraband control was not yet in full operation in the Mediterranean.

The Ministry did its best to reply in a conciliatory manner to these inquiries. Pending the setting up of another control base in the eastern Mediterranean, Italian vessels were invited to call voluntarily at Port Said, but the Italian Government objected to this as 'an infringement of the Suez Canal Convention'. They were apparently willing to submit to a compulsory examination but felt that voluntary submission would involve them in trouble with the Germans. As it happened the British Foreign Office was also strongly opposed to any contraband control in the Canal zone, as it would lay the United Kingdom open to the charge of violating the Suez Canal Convention. The Ministry decided on 15th October that the appointment at Massawa of a consul or war trade reporting officer was necessary.

The Italian Government also raised the question of mails, which it stated 'must be regarded as inviolable', according to the principles of international law. The British had already informed foreign missions in London that they intended searching mails. The Italian Government had apparently asked that their mails between Massawa and Italy should be exempt from search; as this implied the recognition of the right to search, the British decided to agree to this exemption, 'in order to obtain an admission of the principle'. It was further agreed that large inward-bound Italian passenger liners through the Gibraltar Straits should be treated 'with special leniency' for two or three weeks from 21st October; only mail for Germany should be removed, the remaining mails subjected to a token examination and a report made on the cargo, the liner being thus cleared within six or eight hours. This treatment applied in the first instance to the *Rex* and *Conte di Savoia* only, but other ships might be added to the list. This meant in effect that, apart from this temporary concession, the full procedure of contraband control was in force by the end of October.

From this point complaints about the working of the contraband system could be brought before the Anglo-Italian Joint Standing Committee. Mr. Rodd's general impression at this point was that the atmosphere about contraband control had not materially changed since the beginning of the war; nevertheless the 'light-hearted attitude of the Italians towards earlier events which they had attributed to difficulties in "getting our machine" working had disappeared', and there was a very much less satisfactory attitude in the Ministry of Marine. He was also satisfied that not much 'contraband is going into Germany from imported goods'. At a preliminary meeting of the committee on 28th October Giannini reiterated that the Italians were prohibiting entirely exports of petroleum from Italy to Germany; he added that the British had been unduly frightened by petroleum going to the north by rail. This was from tankers which had been put in on the outbreak of war, and whose cargoes were not

Italian property and could not be stopped. When Rodd observed that it was a pity the British had not known about the petroleum export prohibition earlier, Giannini replied that Rodd 'wanted to know too much'. In November the Italians began to press their demands and complaints about the contraband control with increasing emphasis. They asked that the British should not stop all their ships, but only 'a ship now and then'. Duplicate examination of mails by the British and French controls was also resented, and the sealing of ships' wireless telegraph on the high seas. They complained about the holding of Italian ships in Port Said and the Canal area, and asked that ships from Massawa should be given a rapid examination at the same time as the Canal examination took place (at Port Tewfik) and then allowed to proceed without diversion. They further pointed out that it was less inconvenient for a ship coming to Genoa from Port Said to be diverted to Malta than to Haifa. The Italian Chief of Naval Staff was said to be 'very impatient' at British methods. The British representative pointed out that navicerts could not be introduced for some time and that the supplying of advance information regarding sailings and cargoes would much facilitate procedure, particularly in the case of ships calling at Barcelona. It was pointed out that it should be especially easy to supply advance information regarding tankers, as shipment was always arranged for well in advance.

The complaints of the Italians, however, continued. They insisted on their objection to examination and diversion of ships trading only between Massawa and Italy, which they considered 'a matter of national prestige'. They were 'particularly incensed' over the diversion of the fast passenger liner *Victoria* to Haifa, although it was explained that failure to give the required advance information had been the cause. On 13th November an Italian *note verbale* protested formally that 'on the one hand a definite understanding has not been reached as regards the principal suggestions put forward by the Royal Government—thus making it impossible for the masters of Italian vessels to follow a definite line of conduct—and on the other, the British control has been carried out in an arbitrary and frequently confused manner, thus causing serious inconvenience to Italian merchant shipping'. The note concluded with the threat that, if no understanding could be reached, the Italian Government 'would be obliged to adopt other methods', which, according to the British naval attaché in Rome, would mean the escorting of Italian merchant ships by men-of-war. Mussolini was said to be 'furious'.

Accompanying the *note verbale* of 13th November were some comprehensive Italian proposals; these had had a preliminary airing at the meeting of the Joint Standing Committee on 7th November, when Giannini had presented a new draft inter-governmental protocol in four articles and an exchange of notes 'for the purpose of

ensuring and facilitating trade' between Italy and Great Britain. The protocol provided that (1) the British Government would 'waive import and export prohibitions for the direct transit of goods produced in third countries and destined for Italy, as well as for Italian goods destined to third countries'. A clause followed, similarly binding the Italian Government. (2) The two governments would adopt the necessary measures to improve rail transport (i.e. for goods passing between the two countries through France). (3) Each government would undertake 'not to sequester nor requisition in her ports or territorial waters the merchant vessels of the other country'. This article further provided that 'incidents in respect of maritime traffic' should be submitted to the Joint Standing Committee, which would 'take the necessary steps with the competent authorities' to facilitate a speedy settlement. (4) The Italian Government would guarantee not to re-export from Italy goods imported from the Commonwealth 'unless the two governments are in agreement'. The letters submitted with the draft, and evidently not intended for publication, referred (1) to article 4, and contained a guarantee by the Italian Government that goods from the British Commonwealth would not be re-exported in any form, either directly or indirectly, to countries with which Great Britain was at war; (2) to the latter part of article 3, and proposed that disputes arising out of the British contraband control should be settled in accordance with rules which should be annexed to the letter. A comprehensive memorandum setting out the proposed rules was handed by Senator Giannini to the British commercial counsellor some days later, on 13th November. Some of these proposals were sensible, and some had already been adopted. But the commercial counsellor was undoubtedly right when he pointed out to Giannini that the signing of any document embodying these points would be tantamount to the waiving of the British belligerent right of search.

After an interdepartmental meeting at the Ministry of Economic Warfare on 15th November various concessions were telegraphed to Rome on the 18th. (1) Subject to settlement with the French of an outstanding point, inward-bound Italian ships brought into Gibraltar and intending to call at Spanish ports, would be permitted to pass, subject only to identification and certification of manifests, providing that they gave an undertaking to call at Marseilles or Malta before proceeding to Italy. (2) A contraband-control base would be established at Aden on 15th December, to examine manifests. Ships carrying suspicious cargo would have to give an undertaking to call at Haifa or Malta for detailed examination. Ships from Italian Somaliland would be required to call at Aden, but those from Eritrea would be permitted to pass unexamined, unless it was suspected that Massawa was being used as an entrepôt. (3) Shipping between Italy

and her Mediterranean colonies would not normally be interfered with, although the concession would be withdrawn if Italian colonial ports developed an entrepôt trade. It was emphasized (for the British ambassador to pass on at his discretion) that this interpretation of British contraband control involved preferential treatment of Italian ships and would continue only as long as the Italians did not allow themselves to be used as a channel of supplies to Germany.

But in spite of these concessions Italian irritation over the British contraband control continued to grow. Ciano stated, in a conversation with Loraine on 30th November, that Mussolini was 'on the verge of boiling-point', that 'the position as regards Italian shipping so far from improving was getting far worse', and that 'animosity against the United Kingdom was becoming acrid even in Italian circles normally friendly towards us'. He complained of long delays to ships (from twelve days to four weeks), after which they had been released 'with a clean bill' for all cargo. But Ciano made it clear that 'it was the application and not the principle of which he complained'.

At a meeting of the Joint Standing Committee on 3rd December the Italians raised further points: (1) whether the navicert system could be extended to Yugoslavia, Hungary, and Greece; (2) whether homeward-bound ships from Italian Somaliland could have the same facilities as those from Eritrea; (3) whether, in view of the mining of Italian ships in English waters, some procedure could be adopted (such as provision of pilots) for rendering the Channel safer; (4) the question of a safe route to Scandinavia. Hungary and Yugoslavia had, in fact, been added to the list of consignee countries for which navicerts could be granted. The British felt that services from Italian Somaliland had not the same claim to non-interference as those from Massawa, and that consideration of exemption from control must be postponed until the new base at Aden was in operation.

On the same day (3rd December) Count Ciano addressed a letter to Lord Halifax complaining of delays to Italian shipping and citing the length of detention of all ships stopped by British or French patrols. Many of the cases cited could not be considered by the British a legitimate ground for complaint, but there is no doubt that some of the delays were extensive.¹ Ciano, both in his letter and in

¹ In an M.E.W. memorandum of 13th December analysing the cases cited by the Italians, it was shown that out of 125 cases in which particulars of the period of detention could be found, the periods of delay fell into the following categories:

Less than 1 day . . .	27	Less than 6 days . . .	6
Less than 2 days . . .	9	Less than 7 days . . .	6
Less than 3 days . . .	22	7 to 10 days . . .	15
Less than 4 days . . .	11	10 to 14 days . . .	6
Less than 5 days . . .	7	Over 14 days . . .	16

'This does not make too bad a showing, but you will see from an examination of the lists that there have been a considerable number of cases which were certainly calculated to annoy the Italians.'

the recorded conversations with the British in Rome, seemed, however, to be voicing these complaints in a genuine effort to remove Mussolini's alleged causes of grievance and improve Italo-British relations, rather than from any personal irritation. An office for economic warfare had meanwhile been set up by the Ministry for Foreign Affairs in Rome, with Count Pietromarchi in charge. The latter considered it his main task 'to prevent public opinion boiling over on the subject of shipping'. When it was suggested to him and Giannini by a British official that complaints were being 'organized' in Italy, in that within a few hours of a ship being stopped the British embassy received trunk calls, telegrams, visits, and also a complaint from the Ministry for Foreign Affairs, they replied that 'the trouble was that everybody had started complaining to the great man by telegram, and, of course, you cannot explain details of the whys and wherefores of these things to him'.

Meanwhile the British had not lost sight of the problem of controlling the Aegean traffic and the trade through the free port of Trieste. Reliable evidence had come to hand that Germany hoped to use Italy as a base for transit trade, and that certain Italians intended to acquiesce in this. Evidence that they had already done so was less easy to acquire, although it was known that ships had left Aegean or Black Sea ports bound for Italian ports with cargoes for Germany and that there was a good deal of suspicious activity on the part of small coasting tramp steamers, which were not intercepted by British patrols. Statistics of Italian imports, which included greatly-increased imports of petroleum products during the month of September, and at least one cargo of bauxite, which Italy could normally supply from her own resources, were other suspicious factors. Trieste traffic would, however, be difficult to control. Although all goods entering through Italian customs were subject to control by the Italian Government and could be re-exported only under licence, Italian merchants could require a cargo consigned to them to be transferred direct to trucks for transit to Germany, and such goods would not be subject to customs examination or government control. The ship's manifest and bills of lading would merely show the Italian consignee's name, and the shipper at the port of loading might be unaware of the true destination of the goods. In devising a means by which *bona fide* Italian cargoes could be identified by the naval patrol, it seemed, therefore, imperative to secure Italian co-operation, which implied also Italian goodwill.

It had also been decided not to approach the Greek or Turkish Governments for the time being with regard to the opening of a contraband-control base in the Aegean. As a temporary measure an interception patrol was established off the mouth of the Dardanelles at the end of October, which would send ships in for examination to

either Haifa or Malta. Many Scandinavian shippers in Greece expressed themselves entirely satisfied with the contraband-control arrangements: by giving good notice to their representative in London they secured a clear passage for their ships. There is no doubt, however, that there had been frequent instances of delays of more than three weeks owing to the centralization of the contraband control in London. By December the institution of the Black Diamond guarantees had gone far to reduce delays at the control bases, but was giving rise in turn to complaints of congestion at the ports of destination.

Complaints continued during December to pour in to Mussolini, who 'blew up on the subject and announced his intention of sending for' the British ambassador. He changed his mind, however, and left the task to Ciano. At a meeting with Ciano on 22nd December the ambassador said that he feared the Duce had not received a statement of the British case in connection with the complaints put to him; the whole matter was by no means so one-sided as Ciano's presentation would make it appear. The Allies were exercising a lawful belligerent right, which was bound to cause inconvenience; 'no amount of perfecting of existing machinery would render us immune from an incident between the two countries'. He then made the purely personal suggestion that Italy might, like Sweden, run contraband control herself. This was clearly a completely novel idea to Ciano, who replied, 'I am indeed willing to give up the whole of my spare time to reach some arrangement which will banish the risk of an incident between our countries which I believe you know I am just as sincerely anxious to avoid as you are'. He also said that the matter had now 'passed from the purely business plane into a moral and psychological one', and that 'it was no longer a question of concrete cases but of the general and unfortunate impression created that Italy was being controlled by Great Britain'.

It still seemed clear that the Italian complaints were being voiced against the working of the contraband control and not the principle, which had been accepted with surprising docility; accordingly, on 24th December, the ambassador urgently appealed to London for a solution 'to get us out of the present spin'. As the congestion resulting from the Black Diamond system was becoming increasingly serious, it was decided, as 'a demonstration of our goodwill', to release all such detained cargoes consigned to Italian consignees for Italian consumption, on receipt either of confederation guarantees or of individual guarantees. This applied to all goods arriving at Italian ports up to and including 28th December. On receipt of the news of this concession Ciano was 'very much pleased', and agreed, in return, to try to convince Mussolini of British goodwill towards Italy.

By the end of December, therefore, little permanent headway had been made. Italian irritation had been slightly cooled by the decision

to release the detained cargoes, but the problem of control had been only temporarily eased, and the Italians had also not accepted the principle of enemy-export control. In actual fact they had not raised any objection to Italian subjects applying to British consular officers for certificates of origin and interest, but they considered that applications supported by a certificate issued by a *Consiglio Provinciale* ought to be granted automatically. The main difficulty related to trade between Italy and her colonies, which the Italians insisted should, as internal trade, be immune from control.

A fresh attempt at a solution followed the arrival of Sir Wilfrid Greene in Rome early in January 1940. On 6th January Lord Halifax replied to Count Ciano's letter of 3rd December, saying that the entire system had been reviewed in detail, and that he was confident that the plans made would solve the problem of delay. These plans consisted in the first place in detailed measures for improving the routine of examining and releasing cargoes, and in the second in a scheme, which took Sir Percy Loraine's proposal of 12th December as a starting point, whereby the control system could be based on quantitative guarantees by Italian parastatal bodies. This scheme was discussed at meetings of the committee held on 11th and 12th January. The Italians, however, declared the British proposals to be quite unacceptable, on the grounds that they would involve: (1) agreements between corporations on the one hand and representatives of a government on the other; (2) disclosure of figures and statistics, to which the Italian Government could not agree. Giannini even asserted that the proposals impaired the sovereign rights of Italians to manage their own affairs. Ciano, in personal discussion with the British ambassador on 13th January, somewhat deprecated Giannini's language: 'these were big words, and it was no wish of his that they should be used'. Nevertheless, the difficulty was that 'the British proposal meant the fixing of quotas', which he afterwards amended to 'agreed estimates'. He said he would have to submit the matter to Mussolini. He then suggested a 'state guarantee' that nothing imported would be exported to Germany. The meeting was 'entirely friendly' and Ciano himself seemed genuinely anxious to avoid deadlock. A rather bellicose speech on 16th January by Signor Muti, who had succeeded Signor Starace as Secretary-General of the Fascist Party, was a warning, probably inspired by Mussolini himself, that Fascism did not approve of sympathy for Anglo-French allies among Italians. Writing later, Sir Percy Loraine described this as the first indication that the more favourable atmosphere towards Britain which had existed since September might not continue. Ciano told the British ambassador on 16th January that Mussolini refused to consider the limitation of Italy's imports by agreed quotas, and again suggested the possibility of a state guarantee, which must have been

at least tentatively agreed to by the Duce. Sir Wilfrid Greene returned to London with this proposal on 18th January.

The coal question was also broached at this time in conversations with Ciano and Giannini. The British made it clear that, in expectation that a commercial agreement with Italy would be reached, German coal imports into Italy had been allowed to continue temporarily, but that these would shortly be stopped. Giannini replied that Italy refused to consider the British offer to replace German seaborne coal. This surprised Ciano, who asked for an explanation. Giannini argued that Britain could not supply the necessary quantity of coal in time, nor supply the required quantity of coking coal, and thirdly, that an outlet for Italian agricultural produce was essential, as it had been exchanged for German coal. The British challenged Giannini's denial of their ability to supply Italy's coking-coal requirements, stated that Britain would keep her word if she undertook to supply a stated quantity, and suggested that any further quantities could be supplied by Germany by rail. Giannini replied that Germany would refuse. It seemed that Giannini was trying to force Britain into a purchase of agricultural produce. Ciano then observed that the British wanted 'guns not cauliflowers' and that he would discuss the matter with Mussolini. The British hoped for little from this, and it seemed evident that, in order to provide Italy with funds to purchase the coal from Britain in replacement of German seaborne exports, Britain might be forced to buy Italian agricultural produce. The British ambassador and Sir Wilfrid Greene impressed upon London that the Italian negotiations, both as regards purchases and shipping, had now assumed a political colour, and that they could no longer be approached from a departmental angle. They argued that apart from Italy's need to sell her agricultural produce to buy coal, the produce formed a most important element in Italian economy, and the interests of the agricultural population were 'close to the Duce's heart'. The expenditure by Britain of £5 millions on this produce, even if she did not need it and 'threw the cabbages into the sea', would, in the view of the British representatives in Rome, 'buy seventy-five per cent. of the Italian population', enable Great Britain to stop German coal exports without a revival in Italy of the sanctions mentality, and would, incidentally, have the result of depriving Germany of certain quantities of fresh food. This purchase, and the acceptance of the state guarantee against re-export, might have the effect of preserving Italy's non-belligerent status, although it was clear by this time that Great Britain could not hope for Italy's active co-operation against Germany.

(iv)

So the position on 18th January was that decisions were needed in London on the two main lines of Anglo-Italian economic relations. In the first place the British Government had given a general indication of its willingness to finance a comprehensive scheme of purchases in 1940, and it was necessary to define the categories of purchases which it was prepared to make in order to cover Italy's eventual commitments in sterling; in the second place, Mussolini had vetoed the plan for a solution of the contraband problem by agreed quotas, and it was necessary to decide whether to accept the Italian offer of a state guarantee against re-export to Germany. A further complication was that Mussolini had also turned down an agreement for the use of Italian shipping which had been negotiated with the competent Italian authorities; this meant, as Loraine pointed out to Ciano on the 18th, that another four or five million sterling would not be spent in Italy, although admittedly the transaction was outside the £20 millions deal. As soon as Sir Wilfrid Greene reached London speedy consultations took place between him, the Foreign Secretary, and the Minister of Economic Warfare; the whole situation was reviewed at an interdepartmental meeting on the 24th, and a cabinet decision was taken on all points on 29th January. A single scheme was evolved to deal with the whole group of problems, and Sir Wilfrid Greene left for Rome on the same evening.

The cabinet's decision was as follows. (1) The British Government was prepared to accept the offer of a state guarantee in principle, subject to the approval of the French Government and the elucidation of various points of detail. (2) The British Government was prepared to make available for sale in Italy not less than 8.3 million tons of coal during 1940, provided the orders were placed at an early date, to cover (a) Italian requirements already notified, and (b) further requirements resulting from the cessation of German seaborne coal exports. It would authorize the sale of this coal to Italy at prices equivalent to those paid by British consumers in the United Kingdom. In order to provide sterling to pay for this coal as well as for raw materials from the sterling areas for Italian use, it was prepared to place orders for the goods which had been under discussion for some months past, up to at least £20 millions. It was prepared if necessary to purchase in addition up to £5 millions worth of agricultural produce, although Greene should begin by offering £3½ millions; it would not, however (in deference to American feelings), buy apples. All these purchasing proposals were, however, dependent on the supply of aircraft, guns, and other equipment which had been under discussion since November. (3) A shipping agreement was very desir-

able, but if all other points were satisfactorily settled the employment of Italian shipping to bring ore to the United Kingdom would have to be waived. Thus the whole range of problems—contraband control, purchases and sales, coal, shipping, and horticultural purchases—was covered by a single scheme. The financial problem was also involved, as the exchanges contemplated would have necessitated a new clearing agreement.

Mussolini, however, shipwrecked the plan almost immediately. The proposals were set out in a memorandum which Loraine presented on 3rd February to Ciano, who received him favourably. He seemed anxious for a settlement; he promised to send the memorandum to Mussolini, who was absent from Rome, and even offered, if necessary, to visit the Duce by air. Ciano realized that the scheme must be taken as a whole, and would fall through unless Italy were willing to sell Great Britain armaments and aircraft; he also realized that, if the agreement failed, German shipments of coal to Italy would be stopped. But on 8th February he had to tell the British ambassador that Mussolini was not prepared to discuss the question of the sale of weapons of war to Great Britain for at least six months. The decision was, he said, due to fear of 'misunderstandings with Germany' and Italy's own need of modern armaments. Ciano now seemed resigned to the imminent stoppage of German seaborne coal exports to Italy; he said that Mussolini had had fair warning, and was probably not worrying about it. He admitted that the British contraband control 'was being operated in a friendly spirit towards Italy'. The veto was said to refer only to Great Britain and not to France, and there were mysterious reports from Rome that the veto would be lifted on 15th February. This coincided with the date on which the German mission was expected to leave. The dismay of Giannini, Pietromarchi, and Masi at Mussolini's rejection of the scheme also led to the hope that Mussolini might be persuaded to reconsider his decision. In fact, however, the failure of the Duce to bother himself about details or about expert opinion made it more or less clear from the start that his decision was due to political considerations alone.

Further discussions on the evening of 8th February with Pietromarchi showed that the veto on the sale of war material to Britain included all aircraft, bombs, ammunition, guns, T.N.T., and scientific instruments, and also the Isotta Fraschini engines. It transpired later that Mussolini had been under the impression that the Isotta engines were aircraft engines, and he subsequently withdrew the veto on these. It was pointed out to Pietromarchi on 12th February that a contract was completed and awaiting signature for Caproni aeroplanes, and that representatives from the Ministry of Supply, who had been in contact with the Italian ministry itself, had arrived from London and were testing other aeroplanes that afternoon. Pietro-

marchi appeared completely taken aback by this news. With regard to the use of Italian ships (bound for Britain to fetch coal) for the carrying of raw materials from Italy, Pietromarchi explained that the Italian Government did not recognize either the German or British contraband list and adhered to the Hague Convention, according to which certain categories of goods, including all raw materials, could not be declared contraband. Italian ships could therefore carry raw materials to Britain. Pietromarchi further explained, on being questioned, that this applied not only to raw materials from Italy but to raw materials in general.

The impression gained by the British in Rome was that Mussolini disregarded financial considerations in making his decisions and relied on 'taking up more of whatever slack remains in the national standard of living'. When the embassy had completed its inquiries as to which purchases had or had not been disallowed under the veto, it found that the permissible purchases under negotiation would fall short by £6 millions to £8½ millions of the sum required by Italy to cover her purchases from the sterling area. This estimate assumed that the Italians would be allowed to purchase the 8·3 million tons of coal at the preferential price and made no provision for raw material from the sterling area for Italian use. The sum also provided for £1 million for shipbuilding contracts in Italy, which might not materialize. The net result was, therefore, that there would not be enough sterling to pay for even 5·3 million tons of coal already contracted for and certainly not for the 8·3 million tons needed by Italy after stoppage of German exports. The coal sub-account would thus fall into still greater arrears. There seems to be no doubt that there was genuine disappointment among the (state-controlled) suppliers and the Italian Government departments at Mussolini's decision, and that this disappointment was not due entirely to financial and economic considerations. The Italians (not excluding Mussolini) seem to have appreciated the candour and goodwill with which the British had conducted the negotiations,¹ and although there did not appear at this stage any positive Italian belief in a German victory, fear of Germany was obviously a dominating factor, with the additional consideration (in vetoing the armament sales) that Italy might need the armaments herself. This point was of particular importance in connection with the Breda guns;² there had not been great trouble about aircraft, and the types were in any case inferior, but the guns were of very good quality, and Italy was ludicrously short of defensive

¹ Ciano told Sir Percy Loraine that Mussolini had no complaints against the British representatives. They had approached the matter 'on an economic basis; Signor Mussolini had made his decision on political grounds'.

² Signor Masi told Rodd, 'if you knew how badly we needed those guns you would not have asked for them'. Giannini said that after thirty-five days of arduous negotiations the Germans had not succeeded in persuading the Italians to supply one piece of war material.

equipment. The cabinet's inclusion of this item went far to make a refusal inevitable. The British ambassador believed that Mussolini had not so much submitted to German pressure as made a bargain with them, possibly procuring a promise from Germany not to interfere in Hungary or the Balkans, and to prevent Russia from doing so. He thought that Italy had already come down on the German side of the fence.¹

(v)

The wrecking of the comprehensive British plan might have been expected to produce a more severe crisis in Anglo-Italian relations than in fact occurred. It is true that the British Government could no longer postpone the stoppage of German coal shipments, and there were signs of a deliberate intensification of Italian complaints over contraband questions. Nevertheless, as subsequent events showed, Mussolini was not ready at this stage for an open breach with the Allies, and those Italian business and official circles which had previously been concerned in the negotiations for an amicable and profitable settlement with the United Kingdom were allowed to continue negotiations for the time being. The ambassador's view was that Mussolini would not be likely to alter his decision except for political reasons. He wrote later:

There was no political *quid pro quo* for a Britain at war with Germany to offer to Germany's ally; nor was there any sense in offering an outside inducement to Mussolini to accept an agreement which was in itself advantageous to Italy. There was perhaps the barest possibility that Italian entreaties on the score of Italian interests might lead Mussolini to reconsider; there was none that British representations would move him.

Sir Wilfrid Greene accordingly returned to London on 15th February, and the ambassador recommended that as the Italian negotiators seemed anxious to save whatever they could from the wreckage, the British should await any proposals that might come from their side.

The chief cause of complaint about the working of the contraband control was again congestion in Italian ports. By early February this had once more become considerable, and as the hold-back system was being more and more extensively applied, it appeared that an increase in congestion rather than the reverse might be anticipated. Consignees complained, perhaps with some reason, that the system worked only to the advantage of the shipper and to the 'positive disadvantage' of consignees, as 'when the detention of a ship is no longer a factor, the same expedition is not used in London in giving instruc-

¹ Ciano's diary (entries for 3rd, 6th, 7th, 8th February) confirms the account in the text, which is based entirely on Foreign Office telegrams (*The Ciano Diaries*, 1946, pp. 204-205).

tions for the disposal of the cargo as would otherwise be the case'. With the failure of the plan for a comprehensive war-trade agreement the Ministry could no longer look to the possibility of a state guarantee as a factor in the reduction of congestion, and careful consideration was given to various suggestions for easing the situation made early in February by the commercial department of the British embassy. These were: (1) that an Anglo-Italian committee in Rome should consider all cases of cargo held up beyond a certain period and should decide which could be released under a guarantee to be given by the Italians; (2) the acceptance of 'blanket guarantees' from reliable firms, instead of individual guarantees in every case; (3) a simplification of contraband procedure whereby immediate seizures would be ordered more freely, and detentions for inquiry limited to key commodities and doubtful consignees. These proposals are of interest mainly for the light they throw on the difficulty of finding a constructive solution. The third was impracticable: the Contraband Committee could not act until satisfied that there was a good *prima facie* case for seizure. The first would mean a partial surrender of control, although it was felt in London that something might be said for it as a special measure when congestion became particularly acute. The second seemed the most hopeful, and was already being applied to Pirelli and to a number of firms in other countries (see p. 103). On 4th March the Ministry agreed to the acceptance of blanket agreements from approved firms who were prepared to give a formal undertaking not to export goods, whether imported or not, for the duration of the war. The Ministry was not prepared at this stage to agree to the embassy's first suggestion, and it questioned whether undue congestion was an inevitable feature of the hold-back system. Some improvement had taken place during February: on the 14th the embassy had been able to reply to an Italian note dealing with forty ships and 501 items of cargo detained up to 25th January, and to say that since that date no less than eighty-two per cent. of the items had been released. This improvement was largely due to the action of the Ministry in clearing up the cases of some twenty ships which had been long outstanding. Similarly the Ministry was able to say that certain complaints made in private conversation by the Marchese Patrizi on 22nd February were without foundation.

On 19th February Ciano was informed by the British ambassador that German seaborne coal exports to Italy were likely to be stopped on 1st March. Apart from saying it was short notice, Ciano took the news philosophically. It was felt in London that it would be politically undesirable to slow down or stop shipments of coal from Great Britain at the same time as the stoppage of German shipments on 1st March. It was therefore decided to make arrangements to enable the Italians to import from Great Britain during the month of March as much

coal as they could lift in their own ships (possibly 500,000 tons) and, if necessary, to extend exceptional cover to the exporters through the Export Credits Guarantee Department. Meanwhile there were well-informed reports that: (1) the Italians were negotiating for the sale of armaments (particularly aviation material) to Holland, Belgium, Norway, and Yugoslavia, who were willing to pay in dollars; (2) the United States were willing to supply coal to Italy. It seemed that Mussolini was determined to find a way out of the coal difficulty without reversing his decision on the sale of armaments.

An Italian protest, the lines of which had apparently been suggested by Mussolini himself, was handed to the British ambassador on 3rd March.¹ It began by denouncing the British decision to seize German seaborne coal exports after 1st March, and went on to accuse the British Government of contravening international law in its contraband practices. It also denounced the examination of mails, and accused Britain of eliminating the distinction between absolute and conditional contraband. It concluded, 'the Fascist Government, while renewing its protest, desires to make clear, as they stand at this moment, the data and elements of fact of the situation, in order to fix the responsibility to which the further development of that situation may give rise'. Ciano said that feeling was running high in Italy against Great Britain.

A request was received from the Italian coal monopoly that the ships loading German coal at Rotterdam and Antwerp should be allowed to proceed; the British War Cabinet, in view of the protest received from the Italian Government on contraband control, decided to adhere to its decision to stop shipments. However, the representatives of the coal monopoly in the Netherlands issued a public announcement that further exemption had been granted, and, although the report was denied, several colliers left port on 3rd, 4th, and 5th March. They were detained on arrival at the Downs and the cargoes put into prize. As there were indications that there had been a misunderstanding in Rome, and that British coal exporters were not in a position to fulfil their contracts with Italy, the War Cabinet decided on 8th March that ships already detained should be allowed to proceed, but not those still in Belgian and Dutch ports. This was accepted by the Italian Government and an announcement made, by agreement between the two governments, on 10th March. The solution of the immediate point at issue in the coal question was most opportune, as the announcement was made a few hours before Ribbentrop's surprise visit to Rome. He may have been chagrined to find this dispute amicably settled; nevertheless, an Italo-German

¹ Under 2nd March, Ciano states that Mussolini 'himself dictates the concluding phrases of the note, which is harsh and threatening'; under 3rd March Ciano calls it 'a note, I believe, which is firm and to the point, and yet not such as to burn our bridges' (*The Ciano Diaries*, pp. 214-15).

agreement was concluded on 13th March, and provided that Germany should supply to Italy one million tons of coal a month by the overland route. The British believed that this agreement was impossible to fulfil; it was calculated that it would mean that one coal train would have to enter Italy every twenty minutes. Later, however, it was found that this had been a major miscalculation on the British side; the Germans succeeded in keeping up the full amount of the deliveries due until the fall of France made further railway routes available. A British reply to the Italian protest, justifying the British exercise of belligerent rights, was handed to Ciano on 20th March. Summaries of the British reply appeared in all Italian newspapers, but were not given much prominence.

Sir Percy Loraine wrote later that the coal arrangement with Germany 'was perhaps the first downright sale to Germany of important Italian interests'. Ciano described Ribbentrop's visit as having brought about no change in Italian policy, but it was clear that political considerations alone could account for Mussolini's action. How these considerations were to be assessed still remained in some doubt; even the meeting between Hitler and Mussolini at the Brenner Pass on 18th March could not be taken as final proof of Italy's intention to enter the war, although the change in the tone of the press which followed, and which doubtless reflected Mussolini's own mind, gave no ground for optimism. The Italian negotiators still displayed anxiety to save as many economic bits and pieces from the wreckage as they could, and the British Government had no reason, while Mussolini was still sitting on the political fence, to force on any premature breach in Anglo-Italian relations.¹ Accordingly the search for a basis for economic agreement continued, although the British aims in the discussions were now very limited.

On 13th March an interdepartmental meeting at the Treasury discussed the possibility of resuming negotiations with Italy on the clearing agreement. It was decided to maintain shipments of coal to Italy during April at the existing rate of 400,000 tons, for which the Export Credits Guarantee Department would give ninety per cent. cover. No real conclusion was reached on the proposed form of the clearing agreement, but it was decided that Mr. Playfair should go to Rome to resume negotiations. He should try to obtain £2,250,000 for British goods and the necessary amount to prevent the financial claims account falling further into arrears, and leave the Italians to divide receipts at the clearing between coal and raw materials in any way they wished. Signor Gayda, commenting in the *Giornale d'Italia* on 16th March on Playfair's visit, blamed Britain entirely for the

¹ On 6th March Ciano wrote in his diary: 'For the first time I found a person who wants to declare war with the Germans against France and England. . . . The Americans say that a sucker is born every minute; one has only to look for him' (*ibid.*, p. 217).

state of Anglo-Italian commercial relations; he attributed it to the devaluation of the pound in 1931, the Ottawa régime, sanctions, and the severity of the war measures which monopolized all raw materials in the principal markets of the world, and made a prohibited list of all materials not immediately necessary to the war. The latter affected most Italian products; from 1st September 1939 to 31st January 1940 the prohibited list had, he claimed, excluded about £2 millions worth of Italian imports into Britain. This broadside is interesting as an example of the normal style of Fascist publicity at this period, but for this very reason was of no particular significance as far as the immediate negotiations were concerned, and Playfair duly arrived in Rome on 23rd March.

(vi)

The final stage in Anglo-Italian economic relations before Italy's entry into the war on 10th June was characterized by further evidence of the duality which had distinguished them since September 1939. The political leaning towards the Axis partner became steadily more marked, but the efforts of the Italian negotiators to secure a satisfactory settlement of trade and contraband problems still seemed genuine; negotiations continued in a 'cordial' atmosphere until a fortnight before the Italian declaration of war. This was probably due less to duplicity than to a lack of co-ordination in the direction of Italian policy; Mussolini himself was no doubt allowing the economic negotiations to continue while the military situation developed, but the Italian negotiators had apparently to guess at the possibility of decisions which in some cases they dreaded.

After the opening of the German campaign in Norway, the British Government was under no illusion as to the possibility of Mussolini's entry into the war at a not too distant date, and as the future of Anglo-Italian relations was thus dominated by the fortunes of Allied and German arms, there was little to be gained, either politically or economically, by any precipitate reversal of the blockade policy. It was, however, equally true that the existing state of affairs could not be continued indefinitely. The propaganda offensive against the Allies which began after the Brenner meeting concentrated more and more on anti-British and anti-blockade grievances. Mussolini, in a speech on 21st April to Fascist Party leaders, referred to his fierce resentment over the interference with Italian shipping and mails, and complained that for eight months Italy had been deprived of raw materials.¹ The Cardinal Secretary of State twice mentioned to

¹ The meeting was in private, but the embassy secured details. Ciano describes this speech as 'radical and 100 per cent. Nazi', while another, from the balcony of the Palazzo Venezia, was 'sober and controlled' (*The Ciano Diaries*, p. 237).

the British representative at the Vatican the deleterious effect of the British contraband control. There were at least three types of complainant; business men who were genuinely inconvenienced by contraband control, Fascist propagandists who were deliberately creating a war atmosphere, and the many individuals who were influenced by the press campaign to take a harsher view of Allied policy than the facts warranted. Complaints from these sources were voiced so frequently during late April and early May, both privately and in the Italian press, that it was a matter for speculation whether they were not a prelude to Italy's immediate entry into the war. In an article in the *Giornale d'Italia* of 21st April, Signor Gayda concluded by referring to the British and French policing of the Mediterranean and saying that the defence of British and French imperial interests 'would be better served by a system of liberty for all and of honest collaboration'. In a private conversation, Gayda said that Italy was not 'going to remain a prisoner in the Mediterranean', that both Italy and Germany demanded colonies, and, referring to sanctions (when Great Britain 'tried to strangle us by setting fifty-two nations against us') said, 'we must be put in a position in which that experience cannot be repeated'. On 25th April Signor Giunta said in the Chamber that 'the present conflict will expand into a war of peoples against a war of oppressors', and the next day Count Grandi, also in the Chamber, asserted that 'the Fascist empire is not . . . outside this conflict of peoples'. The *Corriere Padano* early in May referred to the application of the blockade as 'not exempt from capricious acrimony', and to Italy as 'a great and free country whose sense of national prestige is keen to the point of exasperation'; he ended with the threat that 'if England claims for herself the rôle of arbiter and gaoler . . . Italy will show herself more impatient to break the locks which shut her up in the Mediterranean and to drive the intruders away'.

All this meant that even if, as a result of Allied victories, the Duce decided to stay out of war, the Allied governments would have to take account of a state of public exacerbation which would necessitate a new approach to blockade questions. In any case the economic position of Italy after eight months of non-belligerency made an early modification of British contraband-control policy imperative. There appeared to have been no large-scale movement of imported goods from Italy to Germany after the first few weeks of the war until the spring of 1940; then, however, there were indications that Germany was endeavouring to induce Italy to export such goods to her. There was evidence of leakage from Spain and Portugal to Italy of German deficiency commodities, and a point had been reached in Italy's oil stocks at which she must export. Reports from the embassy and from the British consul-general in Milan, to which some reference has already been made (pp. 67-8), showed at the beginning of April that

no effective safeguard against re-export existed. This was due in the first place to the fact that the Allied consular officers had neither the time nor the staff to follow up the paper guarantees against re-export which were given so readily by individual importers and the Italian Government; in the second place to the fact that neither business men nor government officials in Italy were sufficiently interested in the Allies to exert themselves very greatly in observing the spirit, or even the letter, of the guarantees. Sir Noel Charles referred to a recent experience of the embassy in connection with the control of petroleum products; the Director-General of Industry at the Ministry of Corporations, after signing declarations guaranteeing the internal consumption of these imports, was found to have authorized subsequently the issue of export licences to Switzerland, Yugoslavia, and Hungary. In the case of individual business men, it could not be expected that, even if pro-Ally, they would do more than fulfil their paper obligations under declarations which they felt had been extracted under duress. It was no business of theirs to trace the subsequent history of goods which they had sold to Italian customers. The consul-general in Milan wrote on 22nd March:

In time of war, in countries adjacent to the belligerents, a crop of mushroom agents springs up, and goods pass from hand to hand with a speed and complexity that baffle all attempts to follow the transactions. Goods fall into the hands of hoarders, speculators and thieves. I recently heard of some imported goods badly needed by Germany, which 'leaked' not only in the Customs House, but also on the train between the port and Milan, and I do not for a moment suppose that this was an isolated case.

The deliberate strengthening of the sense of national grievance against the Allies would clearly have the effect of weakening still further any conscientious scruples that the Italian Government departments, corporations, and individuals might still have about evading the Allied attempts at control.

In addition, however, to the fact that Italy's growing stocks provided a strong temptation to evade the very inadequate system of control, there was the further consideration that these stocks increased Italy's own war potential, and if allowed to remain at this level might strengthen her temptation to enter the war.¹ So the situation was unsatisfactory from the point of view of effective enforcement, and did not possess the saving grace of assuring the Allies of Italy's goodwill.

¹ It seems unlikely, however, that the improvement in the stock position since September 1939 had any real influence on Italian policy. It was, on the one hand, slight: Ciano wrote on 7th April: 'Internal resources are scarce, and we have already gone the limit in gathering copper pans and iron gates. Everything is gone. The truth is that we are worse off to-day with regard to reserves than we were in September. We have enough stocks for only a few months of war'. On the other hand, he records on 6th April Mussolini's decision to fight in the near future (*The Ciano Diaries*, pp. 232-33).

It seemed that Great Britain must either diminish her control to a point which would eliminate Italian irritation, or tighten up her control and risk the consequences. An alternative to the first would be to make a further attempt to reach agreement with the Italians. This method was adopted, not so much because it could be expected to solve the real problem, as because it offered an opportunity of marking time during the next few weeks until the political situation became clearer. A thorough review of the Italian situation in the Ministry during April led to the conclusion that if Italy stayed out of the war, the rationing of her imports would be the most efficacious form of control; failing this, it would at least be necessary to provide the consuls with the time and the requisite knowledge to follow up consignments, and to make the consequences of breaking a guarantee sufficiently automatic and drastic to act as a real deterrent.

The War Cabinet called for an examination of the Italian situation on 4th April, and considered a memorandum on the subject, embodying the views of the Ministry and Foreign Office, on 24th April. It was decided that a further attempt should be made to reach agreement with Italy on contraband questions, on the lines of the proposals in the memorandum. These were the main points. (1) The British should leave the initiative to the Italians regarding state guarantees, but show readiness to examine Italian proposals; 'on our side we should seek to tighten up our control in an unostentatious manner by negotiating agreements with well-disposed concerns and by treating ill-disposed concerns with severity when justified by valid evidence'. (2) 'The French Government should be approached with a view to better co-ordination in controlling the flow of war material from the British and French empires to Italy.' (3) 'An endeavour should be made to reach a conclusion in the negotiations now in progress to place an order for a number of merchant ships in Italy.' (4) The Treasury representative in Rome should be authorized 'to conclude a clearing agreement on the basis of accepting the fundamental points on which the Italians have insisted, provided that the distribution of the proceeds of normal (as opposed to "special") purchases is not less favourable to us than the existing arrangements.' (5) 'The current guarantee facilities for Italian purchases of . . . coal should be continued for the time being up to four million tons a year, providing that the arrears in payment are not considerably increased.' (6) Purchases of horticultural produce should be maintained or increased.

Thus, in this last phase of negotiations with Italy, the British Government had very limited objects; to negotiate an amended clearing agreement, to see whether a shipbuilding order could be placed in Italy, and to arrange for Italy's purchase of four million tons of coal, if she desired. In addition, an attempt was to be made to meet legitimate Italian complaints over the contraband control, while

at the same time adopting unostentatious means of increasing its effectiveness. The institution of Statutory Lists was contemplated in this connection. Progress was deceptively rapid during May. In the financial discussions Signor Masi started by making proposals which the British were unable to accept, mainly because of the exchange rates suggested, and of the proposed differentiation of normal from exceptional purchases. After further conversations, however, Masi accepted the draft of an amended agreement on 12th May, and by the 21st the ambassador was able to tell Ciano that an exchange of notes regarding special accounts, and an agreement about franc-sterling transfers, would be ready in a week.

On 17th May Ciano agreed to the resumption of discussions on contraband questions. The confirmatory note received from the Italian ambassador in London stated, it is true, that the object of the discussions should be to 'arrive at the abolition of any control of our Mediterranean traffic', but Sir Wilfrid Greene proceeded notwithstanding to Rome on 20th May, with Mr. Playfair and Mr. J. W. Nicholls. On 23rd May he issued a statement announcing an interim relaxation of the contraband control. The British had received an intimation from the Italian embassy that the Italia Line, which included almost all ships trading with the Americas, had given instructions that goods for which navicerts had been refused were not to be loaded in the company's ships, that every effort should be made to ensure that all goods loaded would be covered by navicerts, and that any goods not so covered by the time the ship left port should be held back on arrival in Italy while information about them was telegraphed by the company's agent at the port of loading and considered in London.

Sir Wilfrid Greene informed the Italians that, 'in the confident expectation that all other shipping lines who have not already concluded agreements will agree to follow suit', instructions had been issued that for the time being Italian ships entering the Mediterranean would not be stopped except for identification, and those plying within the Mediterranean would be subject to identification but not diversion. This did not, however, apply to ships calling voluntarily at Allied ports. Signor Alessandrini had already been appointed by Italy as head of a new office in New York to deal with applications for navicerts. Greene's announcement pleased the Italians, who declared it to be a 'great step forward', but that it 'did not sufficiently clarify the situation with regard to cargoes'. Pietromarchi complained about the working of the navicert system and wished to modify the arrangement made by the Italia Line, which was only an emergency measure. He then asserted that the arrangement had been made 'under a mistake' and thus the whole basis of the British declaration was cut away. The British then mentioned the Italian proposal of

January for a state guarantee. Pietromarchi 'jumped at this proposal'. By an order dated 21st May, the Italian Government had prohibited the export of a large number of key commodities except under licence. Such licences would be refused as regards export to Germany, and, in the absence of special arrangements, to adjacent neutrals. They considered, therefore, that the system of guarantee could be enforced within the framework of that measure. They were anxious that the guarantee system should be limited to a very short list of commodities.

This proposal for a state guarantee coupled with export prohibitions with regard to goods of military importance was approved by the Italian ministers concerned. On 25th May, however, Ciano told Pietromarchi that he 'could not authorize him to proceed with negotiations on this basis'. The implication was that the proposal must first be discussed with Mussolini. On 28th May Ciano informed Loraine that 'by personal order of the head of the Italian Government', all negotiations had been broken off from that date.¹ The British decided not to 'answer petulance by petulance', but to stand by the declaration of 23rd May, and 'meanwhile to adopt all possible measures not incompatible with the declaration in order to limit the supply of all-important material to Italy'. A telegram was sent to Washington proposing the holding-up of navicerts for dangerous commodities, and that ships should 'not sail without (*sic*) unnavicerted cargo'.

Mussolini's decision appeared to be a shock to the Italian ambassador in London, who had not even been informed and could offer no explanation of this sudden turn of events. The explanation was, of course, clear enough in the next few days, and everything went to support the view that since March Mussolini's main object with regard to Allied economic-warfare policy had been to keep alive and to foster any grievances which might exist in the minds of the Italian people. They were certainly kept in complete ignorance of the length to which the British Government had gone in endeavouring to remove grievances by the suspension of naval control and the release of all detained goods.

¹ In his diary, Ciano writes that he told Sir Percy Loraine 'that all this was useless because we are on the brink of war. Although prepared for it, he did not expect such a brutal blow and grew pale. Then he recovered his bearings' (*The Ciano Diaries*, p. 256). Mr. J. W. Nicholls has given me the following note: 'When Ciano informed the ambassador that "the two young gentlemen from London could go home as soon as they wished, as Signor Mussolini had no intention of concluding any further agreements with His Majesty's Government", Playfair and I went to make our farewells to Giannini, Masi, and, I think, Pietromarchi. Each in turn was convinced that we were saying goodbye because H.M.G. had instructed us to break off negotiations. I have rarely seen men more surprised and genuinely upset than they were when we told them that the boot was on the other foot'.

CHAPTER IX

UNFRIENDLY NEUTRAL: THE U.S.S.R.

THE signature of the Soviet-German non-aggression treaty on 23rd August 1939 (following the commercial credit agreement of 19th August) did not call for any fundamental change in British planning for economic warfare. On 20th February 1939, in reply to an inquiry from the A.T.B. Committee, the British embassy in Moscow had already forecast accurately the line followed by the Soviet Government in the autumn. It said that Soviet policy was essentially one of opportunism and realism, and not likely to be influenced to any appreciable extent by ideological or moral considerations; it would be a grave mistake to suppose that sympathy for the 'so-called democracies' or dislike of the 'fascist aggressor *bloc*' would necessarily influence the Soviet attitude in the event of a conflict between the two *blocs*.

In the event of a European war there is every reason to suppose that the attitude of the Soviet Government would . . . be one of nervous neutrality, and that the principal aim of Soviet policy would be to prevent the Soviet Union from itself becoming involved . . . while the Soviet Government would naturally be anxious to avoid unnecessarily upsetting Soviet foreign trade, it seems likely that one of their chief cares would be to avoid any course of action, economic or other, likely to antagonize Germany. The risk involved in antagonizing the Allies would, for obvious reasons, be considerably less. As regards economic pressure, we could, of course, cut off the Soviet supply of nickel from Canada, but, even so, it would probably be possible to obtain it as a re-export from a third country. It thus seems quite possible that, rather than become involved in dangerous disputes with Germany over the question of contraband control, the Soviet Union might take the easier course of cutting down Soviet trade with the Allies, a course which would be yet further facilitated were compensating opportunities for trade to be offered elsewhere, as, in fact, they certainly would be by Germany.

The Foreign Office, on 2nd March 1939, said that it was in substantial agreement with these views. On the outbreak of war the British position was formally announced to the Soviet Government in the usual way by two notes, one of 6th September giving the contraband list, and the other, of 11th September, the arrangements for the examination of neutral shipping. The task of the Ministry's

action departments was, then, to discover means of enforcing contra-band control and of stopping the Russian leak to Germany, while its Intelligence Department tried to estimate what trade was in fact passing between Germany and Russia. A telegram from the Ministry on 9th September to the British ambassador, Sir William Seeds, referred to his letter of 20th February, and said that the Ministry did not propose to try to conclude any trade agreement with Russia, unless he had in the meantime changed his views.

At this stage of the war the Ministry had not, however, sufficient weight to enforce its policy against the wishes of other departments such as the Foreign Office and Board of Trade, and to the latter the vital consideration at the moment was the desperate need of the country for Russian timber, and its almost equally desperate need to retain for its own use the machine tools and other equipment with which it had contracted to supply the Soviet Union. The interchange of goods between the Soviet Union and the United Kingdom was governed by two agreements. The Anglo-Soviet commercial agreement of 1934 had fixed the value of United Kingdom exports and re-exports to the Soviet Union at the ratio of 1 : 1.1 to the value of United Kingdom imports from the Soviet Union; the £10 millions credit agreement of 1936 had provided that the Export Credit Guarantee Department should endorse notes drawn by the Soviet Trade Delegation in London. The last contracts under these arrangements were placed in October 1937, and almost the whole of the £10 millions had been used up. By 2nd September 1939 the Russians had drawn £7,400,000 in promissory notes, and the following orders for the Soviet Union were outstanding:

Machine tools	£ 1,000,000
Turbines (by Metro-Vickers)	610,000
Forging and bending presses for main armour-plate (unshipped balance)	260,000
Textile machinery	312,000
Other machinery	418,000

Some of the forging and bending presses had already been shipped, and the Russians had made interim payments on other goods which had not yet been delivered. On the other side there was an exceedingly important order to the Soviet Union for 134,000 standards of softwood, the great bulk of which was lying ready for shipment in north Russian ports. Accordingly it was Russian timber, and not Russian trade with Germany, which governed Anglo-Soviet economic relations during September and October 1939.

Britain's first action on the outbreak of war was to refuse export licences for goods to the U.S.S.R., or to delay their issue. But this hold-up was due to supply and not to economic-warfare considerations. Many of the goods were needed for Britain's own war effort, and in

some cases the Service departments had already taken preliminary steps to requisition machines ordered by the Soviet authorities. The Admiralty in particular had succeeded in acquiring a good deal of this material. Rubber, cocoa beans, and other raw materials which had been paid for by the Russians were also held up in various ports. In return, the Russians delayed the sailing from Russian ports of both British and Swedish ships laden with timber for Britain, and on 20th September made it clear that they were not prepared to sell timber for sterling if the goods which they wanted to purchase could not be exported. They asked instead for payment in dollars. A Tass communiqué said that Britain had broken her trade agreement with the Soviet Union. The Board of Trade was alarmed lest the Soviet Government should consider itself released from its obligations under the agreement.

The British timber situation was certainly serious; stocks were low, Service and other demands were high, and with the closing of the Baltic the only alternative source of supply was the west coast of Canada, which would involve an extremely wasteful use of shipping. The Russian timber was already bought, and would be frozen up for the winter unless it was released by November. So, on 18th September, the War Cabinet authorized an approach to the Soviet Union; in exchange for the timber the Soviet Union was to be offered the release of some of the detained machinery and payment in dollars for the balance. Only those machine tools which were considered to be really essential to the British armament industry and to be suitable for immediate use were to be retained. After a good deal of departmental discussion a somewhat different approach was decided on, and Sir William Seeds was instructed to ask whether the Russians would release the timber in return for an equivalent value of goods, mostly raw materials, normally bought by the Soviet Union from Great Britain. The Russians promptly agreed to release about £1 million worth of timber (all that could be shipped that season) against an equivalent amount of rubber and tin, and after rapid negotiations between the Minister of Supply, Dr. Burgin, and Mr. P. N. Filon, the acting chairman of the Soviet Trade Delegation, an agreement was signed on 11th October. Russia secured 8,900 tons of rubber and 600 tons of tin. On 29th September the Soviet Trade Commissioner suggested to the President of the Board of Trade a further deal by which Britain would receive cereals from the Soviet Union in exchange for machine tools and copper. The War Cabinet discussed this suggestion on the 30th, and in spite of the announcement of the Soviet-German agreement on 29th September, and a warning from Lord Halifax that exports to the Soviet Union were probably tantamount to exports to Germany, agreed that negotiations should be opened, subject to the availability of copper for export.

The Ministry's part in the timber negotiations and the proposed cereals deal was one of impotent disapproval. On 30th September Sir Frederick Leith-Ross wrote to Sir Horace Wilson at the Treasury pointing out the undesirability, from the economic-warfare angle, of supplying tin in any quantity to the Soviet Union, and on the following day the M.E.W. spokesman at an inter-departmental meeting argued that it would be desirable to reduce the amount of tin and rubber supplied to Russia and to substitute other raw materials such as lead and cocoa. This objection was overruled in view of the Cabinet's decision to push the timber transaction through as rapidly as possible. Mr. Cross also wrote to the President of the Board of Trade on 3rd October, pointing out that as Germany was believed to have only six months' supply of copper, and as Russia was known to have built up war stocks, there was a serious danger that any exports to Russia would be passed on to Germany. All this seems to have made very little impression on the other departments, and discussions proceeded rather hopefully during October and November as to the possibility of an agreement with Russia. The economic-warfare consideration was certainly not ignored, but was outweighed by the apparent economic and political advantages of a general trade agreement.

The case for such an agreement, apart from the economic advantage which Britain could draw from it on supply grounds, was that a *non-possumus* attitude on Britain's part would merely drive the Soviet Government further into German arms. The case against an agreement was that Russia had already thrown in her lot with Germany so completely as to rule out any possibility of advantage to the United Kingdom. At this stage the information as to Soviet-German collaboration which had reached London was mainly political and military; the occupation of Poland by German and Russian forces had been completed, and a treaty partitioning the country between the two powers had been signed on 29th September, but at the same time it had been announced that no military alliance had been concluded. Russia had agreed to support Germany economically, but the extent of her support had not yet been determined. The Soviet press on 21st August had stated that Germany had given the Soviet Union a credit of 200 million marks, earmarked for the purchase in Germany within two years of various goods, principally machine tools and other industrial plant, and that during the same period the Soviet Union would supply Germany with 'various goods' to the value of 180 million marks. On 29th September it was stated that the two countries would carry out their economic programme in such a way that the German-Russian exchange of goods would once more reach the maximum volume attained in the past. The Allies needed to know what this agreement meant, both potentially and actually, in

terms of individual commodities. During the first weeks of the war a great deal of the energy of the Ministry's Intelligence Department was devoted to answering these questions, and the study continued down to June 1941, when the knowledge acquired was sufficient to enable it to forecast with considerable accuracy what assistance the Soviet Union would need after the German attack.

Among the difficulties of estimating Russia's economic position at the beginning of the war was the fact that the Soviet Government had refrained from publishing any statistics of foreign trade since September 1938, and as the relative importance of individual imports was known to have been changing during the earlier months of that year it was thought possible that the discontinuance of publication was intended to conceal further changes of this type. These changes were most apparent in the case of aluminium, livestock, nickel, and copper. The total imports of aluminium were considered to have risen from 2,500 tons in 1937 to about 9,500 tons in 1938, whereas the importation of livestock apparently declined by nearly fifty per cent. It was known also that even the full Russian returns were not reliable; thus, whereas official statistics gave the amount of nickel imported in 1937 as 9,000 tons, the statistics of the relevant exporting countries showed that it could not be less than 13,000 tons, and was possibly as much as 16,000. There seemed to have been a similar understatement in the import figures for copper and lead. Thus it could be concluded that the U.S.S.R. had accumulated large stocks of essential war materials during the previous few years, and particularly of non-ferrous metals and ferro-alloys. It seemed probable that the 'concealed' imports were intended for war-stocks. The increase in domestic production under the five-year plans might also be expected to reduce the dependence on foreign supplies, as revealed by the 1937 figures, by perhaps twenty per cent., particularly in the cases of copper, lead, and aluminium. From these indications the Ministry drew the conclusion that the threat of restricting imports could not easily be used as an instrument in compelling the U.S.S.R. to conclude a rationing agreement; she was most vulnerable in the case of nickel, but, even so, one shipload from the United States would meet her requirements for a whole year.

In the case of Soviet-German trade the Ministry's conclusion, after an examination of the problem in October, was that if the Soviet Union were unwilling to do damage to its own economy, and if it sent to Germany only its normal exportable surplus, the economic assistance which Germany would receive would be negligible. If for political reasons the Soviet Union made some sacrifices to supply Germany with raw materials, the whole of Germany's deficiencies of manganese, asbestos, and phosphates might be made up, and, by the second and third years of war, substantial proportions of her needs of

petroleum, cotton, and iron ore. The Soviet Union could not supply Germany, save possibly from its own stocks or by the setting up of an entrepôt trade, with copper, nickel, tin or a number of the rarer alloys. The Ministry thought (wrongly as it turned out) that the Soviet Union would be unable to supply any significant quantity of foodstuffs or fodder, with the possible exception of oilseeds and oil cake. Transport was considered to be the limiting factor, particularly in the case of petroleum.

It was against this background of economic assumption that the problem of Anglo-Soviet relations was examined during October and November, and there was some vacillation between a tough policy, inspired by the Soviet invasion of Poland rather than by the interests of the blockade against Germany, and a softer policy, dictated by the hope of developments on the lines of the timber-rubber barter arrangement.

M. Maisky, the Soviet ambassador in London, was an active advocate of the latter course, and in the middle of October pressed his views on Lord Halifax and others. He began by seeing Sir Stafford Cripps (not then in office), who wrote to the Foreign Secretary;¹ during the next few days the ambassador saw Lord Halifax, Mr. R. A. Butler, Mr. Stanley, and Sir Frederick Leith-Ross. He put forward as his personal view the argument that it was bad psychology on the part of the British Government to give the impression that it was nervous of making a trade agreement with the Soviet Union because commodities exported to Russia might be passed on to Germany. It would be better to plan out a year's trade in advance, and simply to omit from the list any commodities about which there was genuine apprehension. Sir Stafford Cripps pressed the case for the despatch of an imposing trade delegation to Moscow in order to prevent further trade going to Germany; he believed that 'the material for a mutually profitable agreement existed'. Lord Halifax, it is clear, found it difficult to believe that the Soviet Government had thrown in its lot so completely with Hitler as to make it difficult or uncongenial for it to double-cross him, but he told Sir Stafford that he would wish to be satisfied that a delegation would '(a) be assured of being able to pull off a pretty good agreement and (b)—which is perhaps the same thing in other words—not be exposed to humiliation and merely serve the purpose of giving Stalin another scalp'. He was, he added, 'naturally suspicious after my Russian experiences of the last few months'. Nevertheless the Russian ambassador's suggestion was well received, and the Board of Trade prepared papers on the prospects of Anglo-Soviet trade. On 25th October Mr. Stanley threw back to M. Maisky

¹ He had already proposed the sending of a trade delegation to Moscow in a letter to Lord Halifax of 16th September 1939. The text is printed in E. Estorick, *Sir Stafford Cripps: a Biography* (London, 1949), p. 180.

the latter's own arguments in favour of a general barter agreement, offered to go to Moscow in due course to conclude negotiations providing that there were a real prospect of a successful agreement, and suggested an immediate exchange of lists of the major commodities which each country required from the other. Here M. Maisky drew back and said that he had no authority for detailed steps of this kind, and would have to refer everything to Moscow. The Board of Trade nevertheless followed up the meeting by saying that it was prepared to contemplate a balancing arrangement under which the British would purchase timber and pit-props, flax and true hemp, paper-making materials, refined petroleum (especially lubricating oil), and barley; possible British exports were tin, rubber, jute, certain kinds of wool, cocoa, lead, certain gums, and salted herrings.

Somewhat late in the day, M.E.W. commented on the Board of Trade's list in two letters of 1st and 11th November, the latter written when the Board's proposals had at last filtered through to the right department of the Ministry. It would rather see purchases of cotton and manganese (partly for pre-emptive reasons) than of furs, wheat, or timber (if any of Britain's timber requirements could be filled elsewhere), and it was particularly worried as to the possibilities of rubber, copper, nickel, tin, jute, gums, and resins reaching Germany through the Soviet Union. There were, as it happened, no further developments; M. Maisky seemed to have no authority to proceed, and the question went into cold storage with the outbreak of the Russo-Finnish war on 30th November, followed by the League of Nations' expulsion of Russia on 14th December.

Since September the alternative policy of regulating Russia's external trade through the contraband-control system had been under examination. It was early agreed that there was little hope of a war-trade agreement. The application of contraband control to the Soviet Union was not, however, easy. Owing to the Soviet Government's monopoly of trade, all Russian imports were, in effect, consigned to the Russian Government; in order to secure condemnation in the Prize Court it would have been necessary to claim that in view of the Soviet Government's known association with the enemy, any consignment which seemed to fall outside the Soviet Union's normal trade must be presumed to have an enemy destination. It seemed inconsistent and inexpedient to go to this length while the timber deal was under consideration. Forcible rationing also presented difficulties, in view of the assumed size of existing Russian stocks, the increasing domestic production, and the very large measure of independence of foreign supplies which Russia already possessed. Rubber and jute were the most hopeful instruments of economic pressure, as almost all Russia's imports of these came from the British Commonwealth. So September and October slipped by, without anything

very much being done, although it was generally agreed that there was no case for displaying greater leniency towards Russia than towards the other neutrals. On 24th October the War Cabinet invited the President of the Board of Trade and the Minister of Economic Warfare to give further consideration to the contraband-control policy to be pursued towards Russia, in order to ensure that contraband-control issues were taken into account in the negotiation of the trade agreement. This apparently meant that the circle was to be squared, and that Britain could hope to secure both Russia's agreement to some system of rationing by *navicerts* and a trade agreement.

That the Soviet Government had other ideas was shown immediately afterwards when M. Potemkin on 25th October presented a note to Sir William Seeds and to the French representative protesting against the British contraband system, and replying to the two British notes of 6th and 11th September. He said that the delay in presenting the reply was due to the fact that the Soviet Government and its jurists had submitted the question to a thorough-going examination. The note, which was published at the same time by the Tass Agency, described the 'unilateral' publication of the contraband list by the British Government as a violation of the principles of international law as defined in the declaration of 26th February 1909; its comprehensive character 'will inevitably lead to the most widespread disorganization in supplying the peaceful civilian population with articles of prime necessity, will seriously menace the health and life of the peaceful population and promises innumerable hardships for the popular masses'. In the same way the system of examining neutral merchant ships was declared to violate the elementary principles of free navigation at sea by merchant shipping. Moreover, merchant vessels of the U.S.S.R. were government vessels and therefore 'should not be subjected to any measures of compulsion such as are applied to private merchant vessels'. The staff of the Ministry wished to reply in detail to the points raised by the Russians; it was considered that in view of the jubilation of the German press at the Soviet note some counterblast was necessary for propaganda reasons. But the Foreign Office preferred a short, relatively non-contentious reply, stating that 'the views of His Majesty's Government on the questions of international law involved have already been made clear and require no further definition', and rejecting the claim that state-owned merchant ships were exempt from the operation of belligerent rights. Mr. Cross preferred this answer, and on his suggestion it was made even shorter by omitting any reference to the ownership of Soviet merchant ships. Then Sir William Seeds pointed out that the government's views on international law had not, in fact, been communicated to the Russian Government, and a revised version was submitted saying that the British Government based its whole conduct on inter-

national law, but saw no useful purpose in entering into controversy on the subject. The Soviet Government was no doubt convinced that its contentions were unanswerable.

It did not, however, wish to put the case to the test, and indeed from September onwards Soviet ships had been discreetly withdrawn from areas where they might be subjected to contraband control, and were now operating mainly in the Pacific, by which route, even in 1937, nearly one-third of Russia's total seaborne imports were carried. Up to November 1939 no Soviet vessel had entered any contraband-control base. On 21st November the Soviet authorities informed Sir William Seeds that an icebreaker and a merchant ship, used by the People's Commissariat for the Navy and carrying no goods, were leaving Murmansk for Leningrad via Bergen, and asked that the Admiralty might be informed in order that the vessels could proceed unhindered. On the question of a possible search they referred to their protest against the examination of neutral shipping and reiterated their claim that all Soviet ships were state ships. There seemed no point in courting trouble by attempting to intercept the merchant ship: the ambassador was instructed on 6th December to refute verbally the Soviet claim to immunity for their merchant vessels, and to this the only reply was a mild note dated 30th December 1939 observing that the Soviet Government did not 'share the opinion of the British Government that the measures adopted by the latter in regard to the seaborne trade of neutral countries are in accordance with international law'. The icebreaker and the merchant ship sailed unmolested, and there the matter was left.

The outbreak of the Russo-Finnish war led to the virtual cessation of all British exports to the U.S.S.R., and the postponement for the time being of any further hope of a trade agreement. Political tension between the two countries mounted during the next few months, and the Ministry's Russian interests were limited in the main to intelligence work in the shape of estimates of the nature of Russo-German trade and the size of the 'Vladivostok leak'. During this period the British Government was moving towards a strengthening of its contraband-control arrangements in the Pacific, but before dealing with this it will be convenient to say something about Russo-German trade.

Although the details of the Soviet-German discussions were naturally not published, the Intelligence Department of the Ministry understood well enough the problems that faced the two powers. It was known that the credit agreement of 19th August had been followed by some further economic discussions during Ribbentrop's visit to Moscow at the end of September, and that a German economic mission, headed by Dr. Karl Schnurre, had arrived in Moscow on 7th October. It was probable that M. Maisky's

approaches on the question of a trade agreement were intended to strengthen the Russian hand in bargaining with the Germans by hinting at the possibility of alternative arrangements with England. The Ministry saw that Russia's real problem would be to decide how far political considerations would make it expedient for her to deprive herself of raw materials in order to supply Germany. Schnurre's notes for his discussions in Moscow,¹ which have survived show that this was the starting point of his own estimate of the position.

His principal task in the negotiations was to find out whether Russia, over and above the treaty of 19th August 1939, could and would compensate for the loss which Germany had suffered in the cutting off of imports by sea. The German military and civil agencies had presented him with a schedule of requirements totalling 70 million reichsmarks, and he noted that this modest schedule was evidence of how low the actual capacity of Russia for supplying raw material was estimated. He intended, nevertheless, to ask for much more than this, as the German war needs were several times as great as the departmental proposals. He hoped to secure both Russian raw materials and those which Russia would buy for Germany from neutral sources. The German *quid pro quo* for these raw materials could not be delivered until later, and he recognized that the arrangements could not be justified on economic grounds: 'a positive achievement can really only be expected, if an appropriate directive is issued by the highest Russian authorities, in the spirit of their political attitude towards us'. He was also interested in the possibility of securing via Russia imports hitherto made from Iran, Afghanistan, Manchuria, and Japan.

The increasing tension in Finnish-Soviet relations was a cause of alarm to the Germans on economic grounds, and on 10th October the German minister in Helsinki telegraphed that Finnish armed resistance would have grave consequences for Germany's war economy. Not only food and timber exports, but also indispensable copper and molybdenum exports from Finland to Germany would cease, and he urged his government to intercede with the Russians to limit their demands. In this and in other economic matters the Soviet Government consulted its own interests, and the German representatives had to go through long and hard negotiations before an agreement was reached in February 1940. The most difficult issue arose over a German stipulation in the correspondence of 28th September 1939 that the Soviet raw material deliveries were to be compensated by German industrial deliveries over a longer period than that taken by the Russian, and although the Soviet Government

¹ *Nazi-Soviet Relations 1939-1941* (United States Department of State, 1948), pp. 119-20 (abbreviated as 'N.S. Relations').

accepted this, it insisted on an adequate *quid pro quo* and for safeguards to limit the possibility of a German default. The *quid pro quo* demands led Colonel-General Keitel on 5th December to protest in alarm to the German Foreign Office that the Russian schedule of requests for German products was growing more and more voluminous and unreasonable, and included, for example, machine tools for the manufacture of munitions, which the O.K.W. could not spare at that stage of the war in any circumstances. The same was true of demands for air and naval war *matériel*.¹ On the question of safeguards, which turned on the timing of the deliveries, there was a prolonged deadlock, and a settlement only after a personal message from Ribbentrop to Stalin, who in turn intervened in the negotiations with a compromise solution, and one which the Germans were forced to accept, very much against their will. He agreed that the Soviet deliveries should be completed in eighteen months and the German in twenty-seven, but insisted that at stated intervals (every six months) the deliveries on both sides must be balanced according to a fixed ratio. If one side was behindhand then deliveries to it could be suspended until its balance had been made up. Schnurre thought this stipulation 'very annoying'.

The agreement was signed on 11th February 1940. Under it the Soviet Union was to deliver within the first twelve months raw material to the amount of approximately 500 million reichsmarks. It was also to deliver raw materials to the value of approximately 100 million reichsmarks contemplated under the credit agreement of 19th August 1939. The most important items were as follows:

One million tons of legumes and of grain for cattle (about 120 million reichsmarks).

900,000 tons of mineral oil (about 115 million reichsmarks).

100,000 tons of cotton (about 90 million reichsmarks).

500,000 tons of phosphates.

100,000 tons of chrome ores.

500,000 tons of iron ore.

300,000 tons of scrap iron and pig iron.

2,400 kg. of platinum.

Manganese ore, metals, lumber, and numerous other raw materials.

In addition there were to be Soviet exports to the Protectorate (Czechoslovakia) of about 50 million reichsmarks. The total Russian deliveries to be made during the first year of the agreement amounted therefore to a total of 650 million reichsmarks. Germany also secured the right of transit to and from Rumania, Iran, and Afghanistan and Far Eastern countries. The freight rates on the

¹ *Ibid.*, p. 123.

Trans-Siberian railway were reduced by fifty per cent. for soya beans, regarded by the Germans as a particularly important import; the transit freight charges, amounting to approximately 100 million reichsmarks, were to be settled by a clearing system. Finally there were certain other items (covering particularly the purchase of raw materials by the Soviet Union in third countries). The total of Soviet deliveries and services in the first twelve months was estimated at about 800 million reichsmarks.

In return the Germans were to deliver industrial products, industrial processes and installations as well as *matériel*. The details of these deliveries are not specified in the memorandum by Schnurre which gives the details of Soviet deliveries, but particulars can be gleaned from subsequent reports, including the particulars that Stalin himself gave to Sir Stafford Cripps in the following July (see Chapter XX). At this stage only part of the Soviet deliveries for the second treaty year had been defined. Soviet deliveries of the first twelve months were to be compensated within fifteen months by corresponding German deliveries; Soviet deliveries would be completed by those of the first six months of the second treaty year (presumably March to August 1941), and were to be compensated by German deliveries from the sixteenth to the twenty-seventh month (?June 1941 to May 1942). Among the Soviet deliveries during the first eighteen months were to be 11,000 tons of copper, 3,000 tons of nickel, 950 tons of tin, 500 tons of molybdenum, 500 tons of wolfram, 40 tons of cobalt. These deliveries of metals were for the carrying out of German deliveries of manufactured goods to the Soviet Union, and the Soviet negotiators secured the reluctant agreement of the Germans to a use of existing German stocks of metals in the first instance for these manufactures. The reason for this was that the Soviet supplies were not ready for immediate delivery.¹

The arrangement gave considerable opportunities to each side to double-cross the other. Three points must be borne in mind in considering the agreement from the angle of Allied economic-warfare interests. The first is that the exchanges were on a reciprocal basis, and, if carried out fully by Germany, would be a substantial drain on her economy; she clearly considered that the balance of advantage would be with her, but at any rate the flow of commodities was not a one-way traffic (the same is true, in differing degrees, of her war-time trade agreements with Sweden and Turkey). In the second place the Russians had shown that although anxious to remain at peace with Germany they were sufficiently confident of the strength of their position to be able to strike a reasonably hard bargain. The third conclusion that must clearly be drawn from the agreement and the negotiations which accompanied it is that the Russians had, with

¹ *Ibid.*, pp. 131-4.

their eyes open, committed themselves too thoroughly to trade with Germany to be able to modify the terms in return for the very slight political and economic advantages that the Allies could offer.

In the meantime the Allies, with no prospect at the moment of any agreement with Russia, had embarked on the alternative policy of economic pressure. The purpose of this was to cut off supplies to Germany from the Far East, and on 14th March 1940 the War Cabinet decided to make an attempt to reach an agreement with Japan for the limitation of supplies to Russia and Germany; it was also decided that the Soviet s.s. *Selenga*, which had been detained at Hong Kong since the middle of January, and another Soviet vessel, the s.s. *Vladimir Mayakovsky*, which had been intercepted on her way from America with a cargo of copper for Vladivostok, should be handed over to the French. The Supreme War Council agreed on 28th March that the stricter exercise of allied contraband control over goods consigned to the U.S.S.R. was desirable. This initiative continued for some weeks, and led to considerable discussion with the Japanese, United States, and Dominion Governments, but the rapid changes in the fortunes of war in Europe prevented any real progress, and the problem had to be re-examined afresh after the fall of France. The whole question of the 'Vladivostok leak' at this stage is discussed in more detail elsewhere (Chapter XI (v)).

The last development of importance in Anglo-Soviet relations in this first period of the war was a renewed proposal from M. Maisky for trade discussions. The Russo-Finnish war had ended on 12th March 1940, and the possibility of an Allied intervention in the war had, fortunately, passed. The Soviet Government was known to be apprehensive at the prospect of an Allied attack on Baku, it was probably genuinely anxious to secure certain imports from sources under Allied control, it had promised in the trade discussions with Germany to facilitate German purchases in neutral countries, and it was unpleasantly impressed by the detention of the *Selenga* and *Vladimir Mayakovsky*. A trade agreement would therefore give Russia some material advantages, and might be expected to check the drift in Allied policy towards open hostility to Russia. But the Russian Government had no intention of going very far, and it is surprising how much trouble the British Government was put to by this guarded approach.

The Soviet ambassador, at his own request, saw Lord Halifax on 27th March. Lord Halifax's account of the interview shows that M. Maisky referred to the proposals in the previous autumn for an Anglo-Soviet trade agreement and said that his government would now be prepared to enter into negotiations without delay, if the British were agreeable, and if they would settle 'certain problems which had since arisen' in a satisfactory manner. This was clearly a

reference to the detention of the two ships; M. Maisky said that these incidents had caused much irritation in Moscow, to use no stronger word, and he felt that to produce a good atmosphere for any trade talks the ships should first be released. Lord Halifax replied that the government's position, and indeed the general question of Anglo-Soviet trade relations, was complicated by the very close economic relations which had been announced between the Soviet Union and Germany. It was the business of the Allies to put all possible obstacles in the way of German trade; but the Soviet Government appeared to be deliberately working against them in this matter. They must maintain the blockade of Germany at all costs. M. Maisky retorted that the Allies must on their side understand the position of the Soviet Union, which, as a neutral, wished to maintain its right to trade with both sides. He was not surprised that the Allies should try to stop Russo-German trade, but rather at the importance which they seemed to attach to it. For instance, the trade through Vladivostok had been much exaggerated in the Allied press. 'It was mainly a trade in materials urgently required for Soviet industry—for example, wolfram, which, as I would be aware, was supplied by the Chinese Government . . . In any case, the cost of transport to Germany by this route would be prohibitive for most classes of goods.' This brought Lord Halifax to what he described as the fundamental question: 'Was there any means by which the Allies could be sure that only a limited amount of Soviet goods went to Germany, and that goods imported into the Soviet Union from abroad were not destined for Germany but for use in the Union itself?' With other countries the Allies had concluded war-trade agreements, but the ambassador had said that such an agreement was practically impossible for the Soviet Union. 'M. Maisky then observed that, in spite of what he had previously said, he now thought that it might not be altogether impossible to meet the requirements of His Majesty's Government in this matter as part of a trade agreement; and he remarked in that connection that a distinction ought to be drawn between countries permitting private trade and countries like his own, where all trade was in the hands of the state. In the latter case, assurances given by the government could cover everything.' At the end of the interview M. Maisky said that it might be found on investigation that no progress could be made in trade discussions; but the matter could at least be explored, and Lord Halifax promised to communicate with him again when he was in a position to do so.

In the meantime M. Molotov had talked to Sir Stafford Cripps in Moscow in February about his desire for a trade agreement,¹ and in London the exploration of the possibilities once more, as in the

¹ Sir Stafford Cripps' account of the interview with M. Molotov is printed in Estorick, *op. cit.*, pp. 221-3.

previous autumn, cut across the plans for more aggressive methods to stop that leak in the blockade. The most important of these, the institution of contraband control in the Pacific, nevertheless went through; it was finally sanctioned by the War Cabinet on 28th March. On 4th April 1940 the Ministry produced a memorandum on a war-trade agreement which was admittedly of a highly unrealistic character: but the writers had been told to define the nature of an agreement which would satisfy British economic-warfare interests, and not to discuss whether it would be desirable or possible. The terms suggested are interesting as an indication of the gulf between the British and Russian positions. The British would require of the Russians: (1) the prohibition of German transit trade; (2) the prohibition of re-exports to Germany; (3) the limitation of Russian imports from all sources to agreed quantities based on 1938 figures; (4) the establishment of Allied reporting officers in Soviet territory; (5) the restriction of exports to Germany of Russian domestic produce to agreed quantities based on 1938 figures; and possibly (6) some special arrangement whereby petroleum, cotton, and phosphates should be prevented from going to Germany. In return, the Russians would be offered: (1) provisions facilitating Russian imports through the contraband control; (2) assurances that supplies from the British and French Empires would not be unreasonably withheld; and possibly (3) an undertaking to purchase surplus Russian goods, such as petroleum (especially lubricating oil), timber, and flax. This ambitious programme was not regarded very optimistically by its authors. A note to the paper expressed the view that the limitation of exports of Soviet products was the most difficult, and, from the Ministry's point of view, the most important, problem. The Russians had entered into definite commitments which they might be unable or unwilling to break. Attempts to negotiate the limitation of Russian exports of their own products would, if they were considered at all, inevitably lead to offers or requests for pre-emption, which would involve the Allies in considerable financial sacrifices. On the other hand, if the British did succeed in restricting Russian exports to Germany, they would have to replace German supplies to Russia, for which these exports paid. The Ministry knew, from 'most confidential sources', that these deliveries consisted of heavy machinery, machine tools, and semi-manufactured steel goods. If a rationing agreement were concluded, it might be possible to offer the Soviet Union large quantities of raw materials of British Empire origin, but it would be impossible to export machinery to the level of anticipated deliveries from Germany. The only practicable compensation for this loss of German imports would be the provision of dollars. The note ended with the shrewd comment that while the quantity of machinery with which Germany had undertaken to supply Russia

was probably well within her capacity in April 1940, it was probably more than Germany would be able to supply under conditions of active warfare.

This then was the programme which the British Government would have liked to secure in the forthcoming negotiations with Russia, and it formed the starting point of the trade talks which followed. The general political situation changed greatly with the Allied defeats of the next three months, but nevertheless Sir Stafford Cripps was sent to Moscow in May, and the chances of some sort of agreement continued under discussion until the end of the year. It will be convenient to continue the story of the Cripps mission in a subsequent chapter (Chapter XX).

CHAPTER X

OVERSEAS NEUTRALS: THE AMERICAS

NOTHING is more significant of the changing technique of economic warfare than the shift in the balance of relative importance of European and overseas neutrals during the Second World War. The outbreak of war seemed to have produced a revival of atavistic isolationism in the United States, and in December 1939 and January 1940 the British blockade was denounced in terms which echoed the rumblings of the early fathers. Events were soon to show that this phase of isolationism was a recoil from war rather than a revival of the ancient grudge; the American people were in no mood for a quarrel with Britain, but they were desperately anxious to avoid involvement in Britain's quarrel with Germany. The strength of this feeling owed much to awareness of their own emotional entanglement in the European issues; it was a last, unreal attempt to hold on to a vanishing security, and when the fortune of battle forced them into action there was a universal acceptance of unprecedented circumstances, responsibilities, and opportunities. This produced some startling developments in every sphere of warfare. The United States again, as in the days of Woodrow Wilson, stepped in its own estimation from isolation to leadership, and in economic warfare to an ambitious conception of control at source which made the 'overseas' neutral and not the 'adjacent' neutral the essential factor in contraband control. The freezing of Japanese assets in July 1941 can be taken as America's final commitment to this new technique; already by this stage, when all the American republics were still neutral, the means had been devised for controlling the flow of economic assistance across the oceans. We shall trace this development in the two chapters on the Americas in this volume.

(i)

The Neutrality of the Americas

During the first winter of the war, however, this evolution seemed very unlikely. The Ministry had to assume that in matters relating to the blockade, the general inclination of the United States Govern-

ment and public opinion to give the Allies 'all aid short of war' would be restrained not merely by the even stronger inclination to avoid all measures that might lead to war, but also by the traditional opposition to Britain's interpretation of her belligerent rights.

Washington was not unaware of the importance of the economic war, nor was it unwilling to give some aid to the Allies in their direct attack on the enemy's economy. President Roosevelt was, however, clearly determined that help on these lines should not conflict with his plans for a neutrality policy which would satisfy contemporary American opinion, and he had also to consider the existing state of Pan-American relations. The British Government did not intend to abandon its right to intercept American cargo destined for Germany, and on 10th September Lord Lothian, the British ambassador, sent a note to Mr. Cordell Hull, the Secretary of State, announcing the establishment of control bases, and urgently advising United States ships to call voluntarily, but giving the usual warning that if they failed to do so they were liable to be diverted. The British were, however, anxious to adopt any suitable means of avoiding friction with the United States Government, both in the interests of Anglo-American relations in general, and in order not to prejudice the revision of the existing neutrality legislation on lines which would favour the Allied supply position. The Foreign Office and the Ministry of Economic Warfare sought, therefore, to forestall controversy by formal or informal arrangements with the United States Government and traders on contraband-control questions; it was clear at the outbreak of war that the neutrality legislation ruled out all question of a war-trade agreement, but it was hoped that the introduction of the navicert system would remove the main causes of friction. In addition, no Statutory List was published for the United States, in view of the widespread American assertion that what was known inaccurately as 'blacklisting' was an interference by a belligerent with American commerce within American territory.

The complexities of the American position were shown on 5th September, when the President found it necessary to proclaim the neutrality of the United States twice, and in different terms. The first was a general declaration of neutrality, repeating almost verbatim President Wilson's declaration of 1914, and establishing for United States citizens the normal rights and duties contemplated under international law; the second proclaimed as binding on United States citizens the mandatory provisions of the Neutrality Act of 1937, and thereby laid an embargo on the export of arms, ammunition, and implements of war to the belligerents. The gravity of this blow to the Allied economy was not compensated by any equivalent disadvantages for Germany: the value of equipment for which export licences now became null and void amounted in the case of Germany

to \$49 only, in the case of the Allies to about \$79 millions. Moreover, while the proclamation of 5th September and supplementary ones of the 8th and 10th found a state of war to exist between Germany and France, Poland, the United Kingdom, India, Australia, New Zealand, South Africa, and Canada, they did not name as belligerents either the Soviet Union or Japan; Americans could, therefore, sell arms freely to these two powers, but not to Canada or Great Britain, and as the cash-and-carry provisions had lapsed on 1st May, they could sell raw materials and foodstuffs freely to all the belligerents, and transport them in American ships. Owing to Allied command of the sea the latter would be of no great advantage to Germany, although it would almost certainly lead to friction over contraband-control measures, if (as could well be anticipated) American ships began to deliver abnormal quantities of such goods to adjacent neutrals. Both arms and raw materials could, however, flow across the Pacific from the United States to Vladivostok without hindrance.

The President had failed to secure the revision of the neutrality legislation in the previous summer, and although it appeared very soon after the outbreak of war in Europe that American opinion was moving rapidly in the direction of revision on the lines that he had then proposed, he was anxious not to incur a second rebuff. The Administration acted, therefore, very cautiously, and was clearly determined not to take any step which should strengthen isolationist suspicion that the President was less anxious to keep out of war than the rest of his countrymen. There were two specific instances in September of the Administration's direct interest in economic-warfare problems; on the 4th, Mr. Cordell Hull asked Lord Lothian whether the British Government would agree immediately to discuss the possibility of bringing into force as soon as possible an improved form of the system of letters of assurance in operation during the last war; on the 26th the President asked American traders not to re-export crude rubber, pig tin, manganese, ferro-manganese, and metallurgical chrome. The first pointed to the early introduction of the navicert system; the second, to the checking, by a 'moral embargo', of the re-export of the goods in question to Russia, and thence perhaps to German war factories. The British had every reason to welcome both moves, but the Administration was in no hurry for further action. The President's request appears to have been due primarily to the fact that on the outbreak of war the United States found herself short of raw materials for her rearmament programme; it was only incidentally aimed at withholding supplies from aggressor countries.¹ As an attempt to check re-exports it was largely a failure.

¹ P. W. Bidwell, 'Our Economic Warfare' (*Foreign Affairs*, New York, April 1942), p. 442.

The position was complicated further by the decisions of the Panama Conference, which set up for the United States a third, or Pan-American, definition of neutrality. This conference of the American republics had assembled on the invitation of the United States Government, and showed substantial agreement both with the generally pro-Allied attitude of the United States towards the causes of the war, and with the United States' view that the war must be kept away from the Americas. The most striking decision was the establishment, by the Declaration of Panama of 3rd October, of a 'safety zone', varying in width from 300 to 1,000 miles, round the American continents south of Canada. The proposal was made by Mr. Sumner Welles, the Assistant Secretary of State, although it did not appear afterwards that the State Department had thought it out very carefully. It could certainly be objected that it infringed the rights of belligerents outside the territorial waters of the American republics, and that to be effective it must be enforced by action which might very well involve the power patrolling the area—presumably the United States—in war. Lord Lothian was inclined to believe that the proposal was the outcome of an earlier scheme of the President for a United States patrol in the Atlantic, a plan that had admittedly been intended to help Great Britain. But however this may be, the mass of the United States fleet would remain in the Pacific, and it was clear that the safety-belt plan, if it meant anything at all, was not likely to further the Allied economic-warfare measures. One result was to prevent effective control of contraband by the Allies from their bases in the Caribbean. The conference also went on record as opposing the inclusion in contraband lists of foodstuffs and clothing for civilian populations not intended directly or indirectly for the use of a belligerent government or its armed forces, and during the discussions considerable resentment was expressed against the so-called 'black lists'.

These complaints were due in part to misunderstanding, and in general it can be said that no particular difficulties over blockade issues appeared between Great Britain and the Latin-American republics during this period of the war. During the Panama conference, for example, the Foreign Minister of Chile said that the publication of the Statutory List was much resented in his country, as a threat to Chile's vital commerce and an intrusion on her sovereignty. He thought that the resentment caused in the whole continent far outweighed the damage done to enemy trade. The British representatives argued that the primary function of the lists was to inform persons or firms in the United Kingdom, or in any other territory to which the Trading With the Enemy Act applied, of the names of persons and firms in neutral countries with whom they were prohibited from trading, on the ground that the latter were deemed to be

controlled from Germany. The Ministry decided at the beginning of October not merely to maintain its position, but to extend the lists to cover firms in Peru, Colombia, and Venezuela. It was awkward, but unavoidable, that the United States had still to be excluded. Nevertheless the Latin-American governments acquiesced in the issue of the lists, and at the beginning of December Argentina, Uruguay, and Brazil accepted the navicert system in the same spirit (*cf.* p. 97).

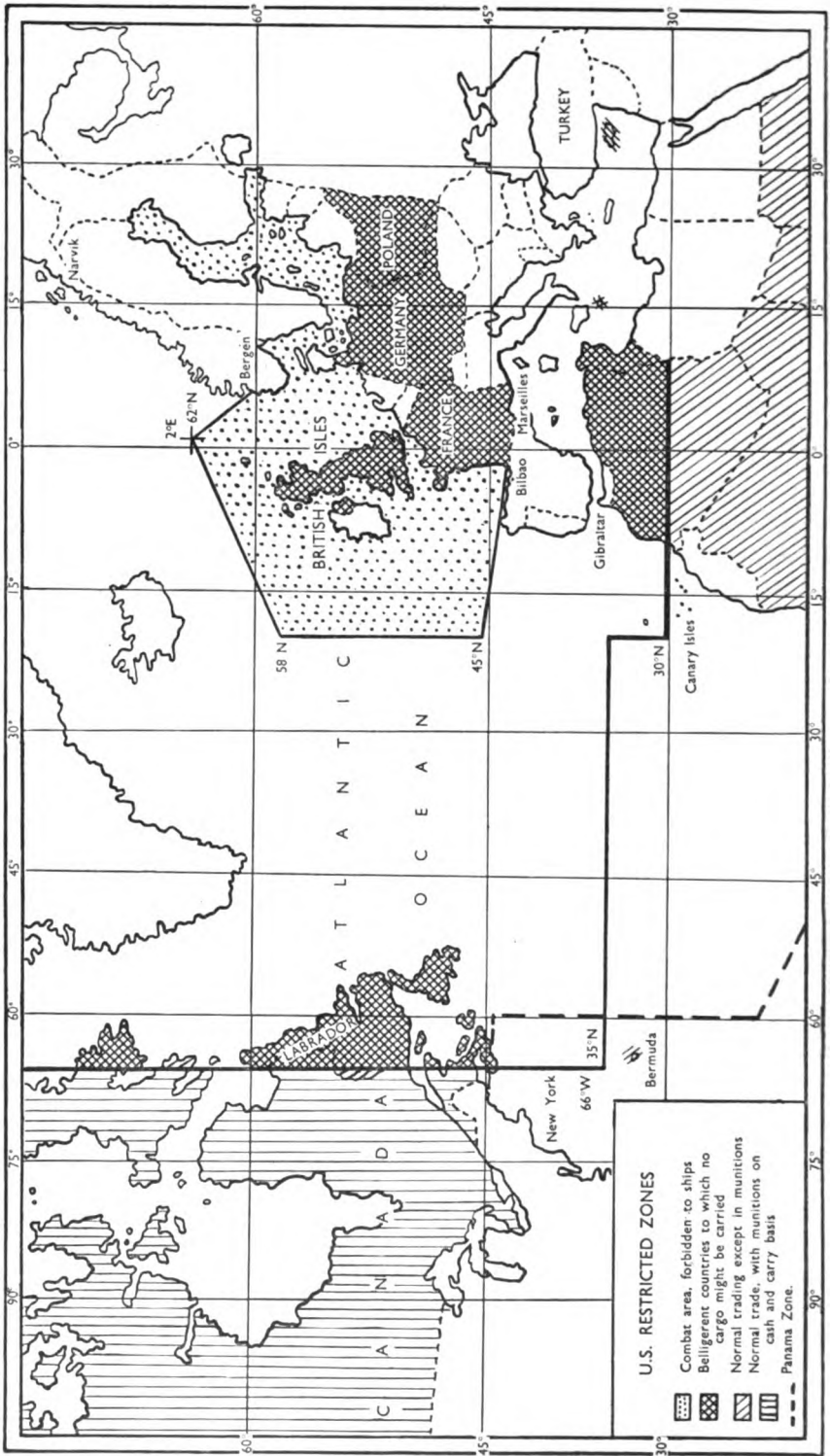
The British Government was well aware of the value of Latin-American goodwill to the Allied war effort. The problem during the first two years of the war was to preserve this goodwill by 'ironing out' difficulties resulting from the war, and it is only in this rather indirect way that economic-warfare considerations played a part. Latin-American benevolence could manifest itself in the acceptance of the British conception of neutral conduct, in the definition of contraband, and in a willingness to accept the Allied cause as a good risk in matters of supply and trade. An Anglo-Argentine payments agreement of 25th October 1939, which had the general effect of continuing Argentine supplies without immediate payment (i.e. in return for payment in sterling into a blocked account at the Bank of England), was a hopeful development, but the interested departments in London were well aware that positive steps must be taken both to hold existing markets and to capture former German markets after the Reprisals Order of 27th November. This was essential in order to reduce the danger of blockade-running and of a policy of retaliation on national or Pan-American lines. Political and pre-emptive purchases and an export drive in 1940 and 1941 represented a brave attempt to meet this situation, but their possibility was limited by the growing meagreness of British financial resources, and after the spring of 1941 the mighty purchasing programme of the United States provided the real solution of the Latin-American problem.

To return to the neutrality problem in Washington: debate in Congress on the proposed revision of the Neutrality Act began on 2nd October, and after some weeks of increasingly tedious discussion the revised Act was approved in both houses on 3rd November 1939, and was signed by the President on the 4th. The debates brought out very clearly the two conflicting tendencies of American opinion—the desire to help the Allies, and the desire to keep out of war; for tactical reasons the President kept in the background what he and his supporters seem to have accepted as the real issue, namely that American peace and security really depended on the victory of the Allies or at least their avoidance of defeat. So the new arrangements, although they made possible the supply of armaments to the Allies and the consequent speeding-up of America's own munitions industries, had to be given a form which could be plausibly claimed to

reduce the danger of American involvement to a minimum, and they were defended as a 'return to international law'.¹ The consequent anomalies again worked awkwardly for the Allies in the sphere of economic warfare. The removal of the arms embargo was a return to established practices under international law, but the cash-and-carry provisions and the war-zone restrictions were a complete departure from it. While United States ships were prevented by the new legislation from visiting belligerent ports, they could take various classes of contraband to certain adjacent-neutral ports, and if the Allied patrols were to send them to control bases for examination the United States could protest both in the light of its traditional views on international law, and on the ground that this was precisely what the neutrality legislation had been designed to prevent.

The British Government lost no time in formally reserving its belligerent rights under the new arrangements, although it sought means of avoiding controversy with Washington on the point. The 'combat area' to which it would be unlawful for any United States citizen, ship, or aircraft to proceed except under rules to be subsequently laid down, was defined by the President in a proclamation on 4th November. The area was enclosed by a line running from the north Spanish coast near to the French frontier west to a point 45°N., then north to a point 58°N., and then north-eastwards to a point latitude 62°N., longitude 2°E. From here it ran south-eastwards to the Norwegian coast south of Bergen, and 'thence along coast line of Norway, Sweden, Baltic Sea and dependent waters thereof, Germany, Denmark, Netherlands, Belgium, France and Spain to point of beginning'. In addition, the Neutrality Act itself had said that no American ships could go to belligerent ports in Europe or Africa as far south as the Canary Islands, or to Canadian ports east of 66°W. In an accompanying explanatory statement the President pointed out that all neutral ports in the Mediterranean and Black Seas were open to American ships, as well as all ports of belligerents or neutrals in the Pacific and Indian Oceans and in Africa south of 30°N. A telegram from Lord Halifax to Lord Lothian on 7th November pointed out that as United States ships could call at ports in Norway and Russia north of Bergen considerable quantities of contraband might reach the enemy whether overland or by sea inside Norwegian territorial waters, and that the contraband control would be seriously prejudiced if such ships were allowed to proceed unhindered to those ports. The British Government therefore found it necessary to retain the right to stop the ships at sea and if necessary divert them to Kirkwall for examination. Similar considerations applied to the Medi-

¹ There is a useful, near-contemporary discussion in *The United States in World Affairs* (Harper, 1940), which remarks, 'If the new Neutrality Act was full of inconsistencies, so were the American people' (p. 188.)



United States Restricted Zones

terranean. A note reserving British rights on these lines was sent by Lord Lothian to the Secretary of State on 9th November.

Mr. Hull did not reply to this note for some weeks, and in the meantime the new position created by the Neutrality Act accentuated the points of difference between the two countries on contraband-control questions. American public opinion in general did not appear to be greatly concerned about the inconveniences or losses of a few traders who went of their own accord into belligerent waters, but it was likely to be profoundly disturbed by death or injury to American seamen, and by the fear that such 'incidents' would drag the country into war. From the beginning of the war there had been grumblings in the American press that the British were denying the right of neutrals to freedom of the seas, although in official circles it was well understood that in their more extreme form such arguments had been rendered quite untenable by the action of the United States herself in the Civil War and in the First World War after 1917, and by the very nature of modern warfare itself. Moreover, in spite of grievances against both belligerents, traders and the press could not shut their eyes to the fact that Allied interference with neutrals was confined to the stopping of their ships on the high seas or to seizure of their cargo, whereas German U-boats were sinking ships and cargo, sometimes without warning.

After 4th November, however, the position changed considerably. The new Neutrality Act had not been entirely to Germany's disadvantage; it freed her from the danger of disputes over the sinking of American ships, and by the middle of the month it was evident that she was intensifying the 'counter-blockade' by sinking neutral ships at sight, and by the indiscriminate sowing of magnetic mines. The Allies replied by enemy-export control under the Reprisals Order, thereby instituting a new form of interference with neutral trade, on lines directly affecting American business.

According to official American figures, forty-eight American ships had been detained for examination up to 16th November; of these the British had stopped thirty-three, the French ten, and the Germans four. The British had removed cargo, wholly or in part, from seven of these ships, and the French from three. None of the four American ships stopped by the Germans had been compelled to enter a German port for search, and none had been sunk. One, the *City of Flint*, had been captured as a lawful prize, but the Allied blockade had compelled resort to a Norwegian port, where the authorities had released it. The danger to American ships brought by Allied patrols into control bases (particularly Kirkwall) now seemed very much greater, but as the domestic legislation of the United States had forbidden resort to such waters it was only too probable that the British, and not the Germans, would be blamed for any damage. Indeed, direct inter-

ference by Germany with American shipping now became almost impossible, whereas British interference seemed to show no decrease.

When the navicert system was introduced on 1st December it was generally well received by United States shipping companies, and the Ministry was also conducting negotiations with certain important American exporting firms for agreements allowing them or their subsidiaries special facilities under the contraband control. But the attitude of the United States press towards the system was not encouraging, and the Administration was careful to avoid giving the impression that it had done anything to forward the arrangement. On 14th December, in replying to Lord Lothian's note of 9th November, Mr. Hull said that he understood this note as 'undertaking to reserve a right' to divert United States ships to British control bases without regard to the municipal law of the United States. He therefore felt impelled to bring forward two considerations.

First. Since, under the Neutrality Act, it is illegal for American vessels to carry cargo to belligerent ports in Europe and Northern Africa, such vessels will, of necessity, be carrying only such cargo as is shipped from one neutral country to another. Such cargo is entitled to the presumption of innocent character, in the absence of substantial evidence justifying a suspicion to the contrary.

Second. It is my understanding that the American steamship companies operating vessels to European destinations, putting aside certain of their rights under accepted principles of international law, have voluntarily indicated a willingness to co-operate with the British authorities in every practicable manner intended best to serve the mutual interests of themselves and the British Government in those circumstances in which the respective rights of the two parties might be regarded as in some respects in conflict. It is my belief that such a spirit of liberality on the part of American shipping interests should be met by a corresponding degree of accommodation and flexibility on the part of the British Government, and that such mutual deferences should avoid giving rise to any occasion for the forcible diversion of such American vessels to those belligerents' ports which they are by the law of the United States prohibited from entering.

The United States would feel compelled to examine all the facts and take appropriate action if, in spite of these considerations, the British authorities felt it necessary to compel any American vessel to enter the combat area. The note was, as Lord Lothian remarked, 'studiously moderate', and he was probably justified in concluding that it need not be taken too tragically, although recent action by the United States Treasury seemed to suggest that there was by no means so great a willingness to co-operate in making the navicert system a success as the note seemed to imply. There was little doubt that any damage to an American ship at Kirkwall would meet with a strong

protest from the State Department, although it was believed that the risk of protest would not be so great if ships continued to be detained at Gibraltar.

Lord Lothian took a similar view of a note addressed by the United States *chargé d'affaires* on 8th December to Lord Halifax, communicating his government's views regarding the British Order-in-Council of 27th November authorizing action against enemy exports. In this note Mr. Hull insisted that in view of the exclusion of American ships from the 'combat zone' there could hardly be justification for interference with American ships and cargoes on the ground of 'breach of blockade', although he admitted the right of belligerents 'to visit and search neutral vessels on the high seas for the purpose of determining whether the vessel is carrying contraband of war to an opposing belligerent'. Secondly, the question of contraband could not arise in the case of goods shipped from Germany to the United States. Finally, whether or not the belligerents were justified in taking certain measures against one another, they could not rightfully carry such measures 'to the point of enlarging the rights of a belligerent over neutral vessels and their cargoes, or of otherwise penalizing neutral states or their nationals in connection with their legitimate activities'. The note also called attention to some awkward practical results which might follow an attempt to apply the British orders too literally. Lord Lothian told the Foreign Office on 19th December that it was quite safe to say that the United States Administration did not expect, and indeed did not want, the abandonment of the British blockade measures, including control of exports. 'Their sympathies are with us and they do not want to impair our most effective weapon.' The terms of the note made it clear that it was 'intended much more as a reservation of United States rights than as a real protest'. The press was understood to have been given a strong lead in this direction by the head of the department of current information at the State Department.¹

Although Lord Lothian was not opposed in this case to some reply being made he thought that it should be 'as unargumentative and as comprehensible to the general public as possible', and that the British Government should be as conciliatory as possible regarding the practical American issues involved. The Foreign Office, which was making itself responsible at this period for most of the negotiations with the United States Government on economic-warfare matters, followed this advice, and the Ministry of Economic Warfare appears to have felt some uneasiness at this failure to present the British case more explicitly. A more vigorous reply was, in fact, given on 17th

¹ Lothian probably over-estimated the State Department's sympathy with this phase of British policy. The moderate and scholarly survey in *The United States in World Affairs* (May 1940) accepts Hull's main contentions (pp. 218, 222-23).

January 1940 to a further note of 27th December calling attention to a new grievance—the interception of United States mails.

The United States Government admitted the right of the British to censor private mails originating in or destined for the United Kingdom, or private mails which normally passed through the United Kingdom for transmission to their final destination. It claimed, however, that in view of article 1 of the Hague Convention No. XI, the British Government had not the right to interfere with United States mail in United States or other neutral ships on the high seas, or to censor mail in ships which had involuntarily entered British ports. The British reply was based on the assertion that the immunity conferred under article 1, which in any case did not cover postal parcels, was enjoyed only by genuine postal correspondence. 'A belligerent is, therefore, at liberty to examine mail bags, and, if necessary, their contents, in order to assure himself that they constitute such correspondence and not articles of a noxious character, such as contraband.' The United States Government in correspondence with the British Government in 1916 had admitted this point in principle. The note went on to point out that the German Navy had, without previous warning or visit, destroyed various ships which were known to be carrying mails to or from neutral countries, 'with as little regard for the safety of the neutral correspondence on board as for the lives of the inoffensive passengers and crew'. The Government was not aware that any protest regarding this destruction of postal correspondence had been made to the German Government.

This note was published by the State Department on 27th January. On the other hand, a note dealing with enemy exports, in reply to the American note of 8th December, was not presented until 21st February, and as the public interest in the question appeared to be dying down the State Department decided not to publish it. This note had none of the faint tartness of the British note on mails; it referred prominently to the fact that the British had entered the war in defence of the established principles of international law, and asked tactfully for some measure of indulgence from neutral countries. The strong case for reprisals was expounded at length; it was emphasized that the British measures were far different from the brutal acts of the German campaign against sea-borne trade, and the various steps to introduce the system gradually, and with many exemptions in the early stages, were described. There was a promise to have regard for humanitarian, scientific, and educational considerations as grounds for exemption.

The United States Government's neutrality policy also ruled out the possibility of co-operation with the Allies to prevent leakages in the blockade. It was hoped in London, as a result of various approaches in December by Mr. Morgenthau, the Secretary to the

Treasury, to Mr. A. B. Purvis (the head of the Allied Purchasing Mission) that the President was making plans for the extension of the moral-embargo policy, and would welcome British co-operation in doing so. This led to the sending of a special Anglo-French mission to the States in the new year, but its purpose was cloaked by instructions to discuss with the State Department problems and complaints connected with Allied contraband-control policy.

Export restrictions were legally enforceable in the United States only in the cases of (1) arms, munitions, and implements of war; (2) tinplate scrap; (3) helium gas. These articles could be exported only under licences issued under the supervision of the National Munitions Control Board. The President's request to American traders on 26th September 1939 not to re-export certain industrial materials was an extension of the moral-embargo policy which had had its origin in a statement at the Secretary of State's press conference on 11th June 1938. This had been confirmed in a letter of 1st July 1938, addressed to manufacturers and exporters of aircraft, saying that the Department would 'with great regret' issue any licences authorizing the exportation of aircraft, or of aircraft parts, armaments, or accessories, to countries whose armed forces were making use of aeroplanes to attack civilian populations. These appeals to traders to restrict certain exports voluntarily were of varying effectiveness, but, as a neutral country with an Administration making 'freedom of trade' its ideal, the United States was not yet ready for any general system of export licensing. The attempt in September 1939 to check re-exports was heeded by regular traders, but largely ignored by speculators. On 2nd December 1939 a further statement by the President wholeheartedly condemned the unprovoked bombing and machine-gunning of civilian populations from the air, and expressed the hope that American manufacturers and exporters of aeroplanes, aeronautical equipment, and materials essential to aeroplane manufacture would 'bear this fact in mind before negotiating contracts for the exportation of these articles to nations obviously guilty of such unprovoked bombing'. A press statement issued by the State Department on 15th December said that molybdenum and aluminium were included among such materials and that a letter to this effect had been addressed to all manufacturers of molybdenum and aluminium. A further press statement on 20th December announced that further delivery should not be made 'to certain countries' of plans, plants, manufacturing rights or technical information required for the production of high-quality gasoline. This was described as an extension of the earlier embargo policy and a means of 'conserving in this country certain technical information of strategic importance'. Aviation gasoline itself was not included in the list.

It will be seen that there were two grounds on which the moral embargo might be imposed: first, to hamper countries guilty of bombing civilians, secondly to build up stocks of essential materials in the United States. The latter objective was more particularly the concern of the Army and Navy Munitions Board; a bill approved in June 1939 had authorized the expenditure of \$100 millions between 1939 and 1943 to build up stocks of strategic and critical materials. On 30th January 1940 the Board issued the following definitions of these materials.

Strategic materials are those essential to national defence for the supply of which dependence must be placed in whole, or in substantial part, on sources outside the continental limits of the United States; and for which strict conservation and distribution control measures will be necessary.

Critical materials are those essential to national defence, the procurement problems of which in war would be less difficult than those of strategic materials either because they have a lesser degree of essentiality or are obtainable in more adequate quantities from domestic sources; and for which some degree of conservation and distribution will be necessary.

Strategic Materials (14)

Antimony	Mercury	Rubber
Chromium	Mica	Silk
Cocoanut shell char	Nickel	Tin
Manganese ferrograde	Quartz crystal	Tungsten
Manila fibre	Quinine	

Critical Materials (15)

Aluminium	Iodine	Platinum
Asbestos	Kapok	Tanning materials
Quartz	Opium	Toluol
Graphite	Optical glass	Vanadium
Hides	Phenol	Wool

It was also stated that the Board maintained a list of, and kept under surveillance, certain additional materials which might become strategic or critical.

It will be seen that these attempts at the restriction of exports by exhortation were not likely to produce the water-tight control of shipments to Germany and German-controlled countries desired by the Allies. It was not even clear what were the 'certain countries' referred to in the press statement of 20th December. The neutrality policy and legislation made it impossible for the Administration publicly to take sides by naming a belligerent as the object of its moral embargo. It was known that the embargo applied to Japan and the U.S.S.R. It was less clear whether it applied to Germany; all that could be said was that industrial firms on the whole believed that it

did, and the State Department took no steps to disturb this belief. But the function of the Division of Controls in the State Department was a hortatory one, and there was no guarantee that leakages would not occur. It could, of course, be assumed that, although the system of moral embargoes was not completely effective, it was of considerable help to the Allies; it was also true that the only conditions under which the United States as a neutral power might have imposed more drastic restrictions on exports would probably have proved embarrassing to the British Government. The United States was not at war, and the cutting-off of supplies would have to be justified on 'moral' grounds connected with civilian bombing. So the one or two moves by the Administration which could be regarded as direct attempts to help the Allies in the sphere of economic warfare were not followed up, and, for the rest, the line taken was that the British and French could make their own arrangements with American traders, but must not expect official help in facilitating their plans. In the meantime the Allies were expected to be as conciliatory as possible towards the practical American interests involved.

(ii)

Agreements with U.S. Firms

The somewhat enigmatic attitude of the State Department affected the Ministry's relations with private American firms and business men in various ways. It left them considerable freedom of action; it certainly allowed any firm with the appropriate sympathies to restrict or abandon its business with totalitarian states. The moral and strategic embargoes specifically discouraged certain clearly-defined exports to certain less clearly-defined markets. On the other hand, the action of the United States Treasury early in December (see p. 346) discouraged the complete adoption of navicerting; the ban on blacklisting, and the well-publicized protests against Allied blockade measures, gave help and even encouragement to American firms with German sympathies, or with the determination of the good neutral to get the maximum profits from all belligerents. Broadly speaking, therefore, the British Government was left to make its own arrangements, and its considerable success in securing the co-operation of American exporters was due in part to their political sympathies, and in part to the effectiveness of the Allied contraband control.

For the most part this meant, as Mr. Ashton-Gwatkin noted after extensive conversations with individual American industrialists in March and April 1940, that they would co-operate with the Allies 'so long as we do not expect from them any great sacrifice of their

commercial interests'. He found that the 'general attitude of the financial and commercial community in New York, and probably in most other centres, is not only anti-Nazi but definitely pro-Ally'; there was 'a good deal of feeling in commercial circles against trading with Germany and other "aggressor" countries', and there were firms who did not hesitate 'to refuse business with countries or customers whom they do not like'. Mr. Purvis was a well-known and much respected business man, in a specially advantageous position for getting information and some degree of help from the American business world.

It did not prove possible, however, to go very far before the fall of France in arranging precise terms whereby United States business firms would co-operate with the Allied and United States Governments in implementing the moral-embargo policy. The only considerable step in this direction was the understanding with the Climax Company in April 1940 (see pp. 367, 372). Similarly the action of the United States Treasury in December prevented exporters from refusing to take unnavicerted cargo and so made it impossible for the British embassy to arrange for full co-operation with these firms; shipping firms, such as the Moore-McCormack and Ramb Lines, which had been preparing to limit their business to navicerted items, had to put up with considerable inconvenience in consequence.

It has already been seen, however (Chapter II (iii)), that considerable progress was made in the negotiation of agreements with the subsidiaries abroad of certain American exporting firms. These were mainly oil companies, whose representatives in London established very satisfactory relations with the Ministry. During January 1940 five subsidiaries of the Texas Oil Company (operating respectively in Holland, Italy, Norway, Belgium, and Denmark) signed agreements with the Ministry, undertaking that no part or product of their imports was to be exported to Germany or territory under German control; a similar undertaking was to be obtained if the goods or products were sold again to other than retail traders; explanations and documentary evidence would be furnished as required, and no import would be deemed to release any existing stock for export. The companies were spared the necessity of furnishing individual guarantees of neutral consumption to cover each shipment, and they were given the right of direct access to the Ministry. Thus the arrangement meant that the companies avoided loss of time, money, and temper resulting from inability to know in advance the wishes of the Ministry; the Ministry secured information and control which would not otherwise have been obtainable. Similar arrangements were made with four subsidiaries of the Gulf Oil Company in February 1940; with four subsidiaries of the Standard Oil Company of New Jersey during February and March, and with twenty-two

subsidiaries of the Socony-Vacuum Oil Company between February and May. In March an arrangement was made with the Tidewater Associated Oil Company whereby the company undertook to restrict sales to companies operating in various neutral countries to the average sales of these companies during the years 1936-38.¹

During October and November 1939 there had been discussions in London with the Regional Director of General Motors which resulted in the drawing up of a form of agreement to be entered into between the Ministry and various companies in Europe affiliated to General Motors. The Ministry undertook to facilitate wherever possible the passage of the company's products through the contraband control, and the affiliated companies were to refrain from exporting the goods to Germany; there was a provision whereby an affiliated company would consult the Ministry where it was reasonably apparent that an order for export was abnormal, or where there were circumstances suggesting that the ultimate destination of goods was Germany. An agreement was also signed on 15th June 1940 with the Ford Motor Company of Dearborn, but the development of the war limited its scope. The terms of the agreement nevertheless gave the Ministry complete control over the company's exports from the United States.

(iii)

Navicerts

At the beginning of the war it had appeared that the navicert system would have the open support and encouragement of the State Department. When Mr. Cordell Hull had asked on 4th September whether the British Government would agree immediately to discuss the possibility of bringing an improved form of the system of 'Letters of Assurance' into operation as soon as possible, he had introduced this proposal by referring to the importance of avoiding unnecessary friction. He had also suggested that experts should sit round the table as soon as possible to discuss the arrangements. On the 8th the State Department had reminded Lord Lothian that they regarded the matter as urgent, and on the 11th the Ministry had authorized the opening of discussions, stipulating at the same time that the navicert system should not be limited as to the commodities to which it would apply.²

The first meeting between representatives of the embassy and State Department took place on 12th September and was purely exploratory, being confined to an explanation of the working of the

¹ Particulars of these agreements are given in Appendix IV.

² Cf. *The Memoirs of Cordell Hull* (Macmillan, 1948), i, 680-81, 735-36.

system in the last war, and its probable working in this. A second meeting on 28th September was devoted mainly to questions of neutral trade in general, and an oral statement was read by a State Department representative, Mr. Hickerson, reserving all rights of the United States and its nationals under international law and, in particular, as regarded trade with the so-called northern neutrals. The State Department's representatives said that they had at present no suggestions to put before the Committee, and they now appeared anxious to dissociate themselves from any commitment on the navicert question. This tendency became still more marked in the following weeks, and the State Department even questioned whether Mr. Hull had made any request on 4th September and whether, if he had, he had the navicert system in mind. The British Government was anxious to introduce the system as soon as possible, but it did not feel that any formal agreement on the part of the United States Government was necessary, being mainly concerned to persuade the latter that the system was purely voluntary, designed to 'facilitate the legitimate trade of American exporters'. Sir Owen Chalkley¹ made a statement on these lines at a further meeting on 16th October, and the United States members, after seeking information on various points, asked for a few days for consideration. The meeting showed the increasing uneasiness of the State Department, and on the 28th its representatives again said that they were not prepared to give their views, or, on the other hand, to say that they had no comments or no objections. They explained that this was due to diverse opinions, particularly among their legal advisers, but suggested 'rather strongly' that while the neutrality debate was proceeding it would be to Britain's best interest to make no announcement that the navicert system was to be introduced, or that it was under discussion with the United States Government. The State Department was pressed again after the debate, and at last, at a further meeting on 9th November, stated its position.

Most of the difficulties which arose during the succeeding months were due to differences of opinion concerning the discussions on 9th November. Mr. Hickerson read, on behalf of the State Department, a statement calling attention to his oral statement of 28th September, and saying that, subject to the reservation of rights under international law contained therein, the United States Government did not wish to take a position in respect of the introduction of the navicert system into the United States. 'At the present stage, it rather regards the proposed system as a matter between those American exporters who may desire to take advantage of it and the appropriate British authorities.' These comments were, however, based on the assumption that the following 'four assertions' were correct:

¹ Commercial counsellor to the British embassy.

1. The proposed navicert system will in no sense be used to interfere in any way with the normal volume of exports of genuine neutral character from the United States to any neutral country.
2. The proposed navicert system will not be used in any way to discriminate against the United States and United States exporters.
3. The granting or rejection of a navicert shall be conditional upon circumstances related solely to the character of the goods and conditions in the country of importation and in no respect upon conditions related to American exporters or to the United States.
4. Whenever applications for navicerts are rejected a clear, concise statement of the reasons for such rejections shall be given to the applicant for the navicert.

All four embassy representatives present were satisfied afterwards that they had made it clear that, if comment were expected, it would be that some at least of the assertions were unacceptable. They were equally certain that the State Department representatives had said that no reply was expected. They confined themselves, therefore, to saying that the memorandum would be reported to London. During the course of the meeting the American members maintained that Mr. Hull's request to Lord Lothian on 4th September must have been misunderstood.

The attitude of the State Department placed the Ministry in a somewhat awkward position; the most obvious explanation seemed to be that the Americans were shielding themselves with paper reservations in order that any unpopularity resulting from the system might fall on the British, but the tone and form of some of the American objections suggested that there was some degree of genuine hostility to the system itself, although this was apparently not the attitude of the Secretary of State. It was necessary, therefore, to ask whether it was wise for the embassy to proceed to introduce the system, with or without informing the State Department that the four assertions could not be accepted without qualification. The Ministry on 15th November told the embassy that the third and fourth assertions could not be accepted, but as they might have been put forward 'more as a matter of form than as serious objections' it was left to Lord Lothian to choose the time and method of explaining this. He decided not to make any communication, and a press release on 20th November announced the introduction of the navicert system on an entirely voluntary basis as from 1st December. The acting Secretary of State, at his press conference on 21st November, while making a broad reservation of rights, treated the matter as one between United States exporters and the British authorities. Press comment was reserved, but the general inclination was to be friendly and to say that the system would be judged by results.

Although all announcements about the navicert system were made

in the name of the French and British Governments, the arrangements were, by agreement between the two governments, left in British hands, and it fell to the British embassy to conduct negotiations with the United States authorities and traders. The chief obstacles to the complete success of the system came, rather unexpectedly, from the former. It was well received by exporters, and even more so by shipping companies, but their readiness to take full advantage of the Allied arrangements was effectively checked by a press release on 2nd December, in which the Treasury recalled without comment section 36 of the Shipping Act of 7th September 1916. Under this the Secretary of the Treasury was permitted to refuse clearance to any vessel where there was reason to believe that cargo for which the ship was adaptable, and for which there was space, had been refused. Informal inquiry in official quarters made it clear that this release was aimed at the navicert scheme, and that the immediate cause was a notice issued by the Moore-McCormack Line saying that the company would not accept unnavicerted consignments for countries covered by the scheme. Similar announcements were made, or contemplated, by other companies. The advantage of this arrangement for the companies was obvious: their ships would still be liable to diversion to a base if items of unnavicerted cargo were carried, but if the whole cargo were navicerted they could, in normal circumstances, hope to escape examination. The British authorities for their part were only too glad to afford these facilities, both as a means of avoiding friction and in order to bring the system completely and effectively into operation. The State Department, which was probably a party to the Treasury's action, was, however, not ready at this stage to accept so rapid a development. There may have been suspicion of the use to which the British would put this considerable degree of control of United States exports, and there was certainly alarm at the possibility of criticism in the press or in Congress.

So the shipping companies had to abandon their insistence on navicerted cargo. The interest of exporters in the system remained, however; 4,952 applications were received by the embassy in December 1939, and by the beginning of April 1940 the weekly average of applications was approaching 3,000. Complaints from exporters and shippers were not against the navicert system, but against the delays and other inconveniences of the contraband-control arrangements which the complete use of navicerts would largely have avoided. Such criticism of the system as appeared came rather from press or political circles which really believed, or professed to believe, that it opened the door to the establishment of Allied contraband control on American soil. How far the State Department shared these fears, and how far it was acting merely to anticipate Congress criticism, is difficult to say. On 14th December a United States

Senator notified the Department that a shipper had been refused any reason for the rejection of certain of his navicert applications, and on the 21st the State Department called the embassy's attention orally to the fourth assertion. Sir Owen Chalkley's reply, that, in accordance with what the embassy understood to be the desire of the Americans, it had neither accepted nor contested the four assertions, and that in any case it was out of the question to give reasons for the rejection of any applications, did not satisfy the Department.

The matter was raised again on 2nd January 1940, when, at the suggestion of the Secretary of State, Lord Lothian went to see the Assistant Secretary of State, Mr. H. F. Grady, about the navicert system. The latter gave the ambassador a statement dated 29th December which called attention to the four assertions, and said that the United States Government had been given no indication that the conditions imposed were in any way objectionable. The statement made by Sir Owen Chalkley on 21st December had, therefore, caused astonishment.

The Department of State must, however, decline to accept such an explanation of so important and far-reaching a departure from what appeared to be a clear understanding between the two governments with respect to the conditions under which the navicert system would be instituted within the jurisdiction of the United States. The Department of State is, therefore, left no alternative than to ask for a clear and specific statement of the British Government's attitude concerning each of the four assertions set forth in the oral statement of 9th November 1939.

Lothian said that there had clearly been a misunderstanding as to the acceptance of the four assertions, and gave his personal experience in support of this view. Grady did not press this point further, and it was, indeed, obvious enough that the American plan of making formal, and often public, protests and statements on matters which the British were hardly ever expected to take quite at their face value was bound to lead at times to confusion; it might also lead to suspicion of British duplicity inside the Department of State. A trace of this can perhaps be observed in Grady's general comments. He said that he fully understood the British Government's difficulties and reasons, but opinion was getting restive on certain points, and pressure would be severe after Congress met. He also said, however, that the United States could not allow the British Government to use the system as a method of rationing neutrals or to differentiate between American and foreign traders or between the United States and other countries. Except in some degree with regard to rationing, there was no justification for apprehension on these points.

In explanation of the four points, Grady said that, with regard to the first, rationing of a particular neutral should be done through

import licences issued by the importing country, and not by refusing navicerts to American exporters. With regard to the second, he said that the system might be abused; in the last war, if navicerts for particular goods were refused in the United States, they would be issued to British firms in Argentina. In the third case, 'conditions' in the country of importation were intended to apply, for instance, to export to firms which had been black-listed in Norway. No system of black-listing in the United States could be accepted. In the fourth case, he said that a statement of reasons was the only way in which it was possible to ensure that the navicert system was not being abused in the ways he had outlined. Although the ambassador could only promise to refer the more technical points to London, he pointed out that there was no black list in the United States; there had been only forty refusals against over 3,000 navicerts issued in December, the system was apparently working to the general satisfaction, and any interference with it would inevitably mean the restoration of the inspection of all goods and ships at contraband-control bases, which would be worse for everybody. He saw insuperable difficulties in the way of giving reasons for rejections, partly because it might lead to litigation, partly because it would mean interminable controversy, and partly because it would begin to distinguish between approved and unapproved firms. In his report on the conversation, he said that the discussion was entirely friendly throughout, but he felt that the American representations must be taken seriously.

It was not easy, however, for the Ministry to go far in making concessions, and it was impossible to agree to the ambassador's main proposal, which was that in the cases where no rationing arrangement had been agreed on with a European neutral the navicert system should not be used to impose rationing. The Ministry recognized the importance of going a long way to meet the Americans, but told Lord Lothian on 11th January that the navicert system might have to be used for precisely the purpose he had mentioned. His reply on these lines to the American memorandum of 29th December was given in a memorandum handed to Mr. Grady on 20th January. He said that the British Government was not able to accept the four assertions in the way in which they had been formulated, but had instructed him to submit an explanation of the working of the navicert system 'which it is hoped will meet the question at issue'. There were three main points. (1) Statistics showed that neutral countries contiguous to Germany had, since the outbreak of war, been importing many essential commodities in quantities far in excess of the normal. Where it had proved impossible to reach agreement for the limitation of supplies with such neutral states, 'usually because of the neutrals' fear of German reprisals and consequent preference to be compelled to submit to *force majeure*', the rationing or restriction of

imports was effected by the contraband controls at Kirkwall, the Downs, and elsewhere. The rationing of neutrals was therefore not effected through navicerts issued in the United States but by the system of contraband control. 'The navicert is in effect simply a visa to facilitate the rapid transit of goods through the contraband-control points by making unnecessary in all ordinary cases their examination there. American importers are, of course, at liberty to export goods to neutral ports without a navicert.' (2) The Ambassador was authorized to give an assurance that the system would not be used directly or indirectly to transfer trade from American to Allied firms or from the United States to other countries. (3) The British Government, while maintaining its inability to give explanations in every case in which navicert applications were refused, would be willing, unless there were strong reasons to the contrary, to acquaint the United States Government unofficially with the facts of any case in which it was especially interested, or which might involve particular difficulties. It was suggested that, as decisions were taken in the main in London, these inquiries should normally be made through the United States embassy.

The state of the navicert question at this point illustrates very clearly one of the Ministry's fundamental difficulties in the first phase of the war. This was its tendency to embarrass itself by excess of zeal. 'The awkward and unavoidable fact', wrote one official commentator, 'is that we instituted navicerts in America at the instance of the State Department before we were ready for them. This time no quotas were established when navicerts first were issued. In the last war quotas were in force when the system began.' At this stage there was no immediate prospect of the removal of the two chief obstacles to the general rationing of all European neutrals by the imposition of import quotas—these obstacles being the absence of complete statistics as to war-time imports and the absence of Cabinet approval of any general policy of forcible rationing. The only arrangement in this connection which, as Grady made clear, would completely satisfy the State Department was a system of voluntary agreements between the Allies and the various neutrals; although the Ministry's grounds for using the system in isolated cases to prevent excessive imports would be strengthened by a Cabinet decision in favour of rationing, there was no reason to think that an announcement on these lines would lead the United States Government to take any more kindly to the idea. But here again the difficulty remained of knowing how seriously to take the State Department's attitude. It seemed clear by this stage to the British authorities that there was a strong legal element in the Department which was highly uneasy about the navicert system, and was anxious to provide every possible safeguard against a deliberate or involuntary encroachment by the

British on United States sovereignty. There was also the necessity to forestall criticism in Congress by demonstrating that the Administration was zealous in its defence of American rights and interests. The presentation of the British note on 20th January coincided with, and helped to strengthen, the public attack launched by the State Department during the third week in January against the British economic-warfare measures. Particulars of this attack are given in the next section.

By the beginning of February there were signs that this storm over British contraband measures was likely to subside. On 2nd February Mr. Sumner Welles told the ambassador that he personally thought that a solution of outstanding difficulties lay in navicerting, and the British explanations and assurances, together with the obvious willingness of American shippers and exporters to co-operate in the working of the navicert system, were no doubt helpful in convincing the State Department that its fears were exaggerated. A speech to the Export Managers Club in New York by Mr. L. H. Leach, who was in charge of the Navicert Department of the British consulate, complimented American business men on their understanding of the navicert system and their real desire to co-operate, and explained its advantages to them under war-time conditions; he surprised some of his auditors when he told them that in the last war the navicert system was due to the initiative of United States Consul-General Skinner in London. The speech appears to have had considerable publicity, and the press in general did not deal with the navicert system too harshly.¹ The State Department's change of heart became apparent when on 19th February it was suggested privately to the embassy that the question should in future be handled on common-sense rather than on legal lines and that the exchange of written documents should cease. This approach coincided with the resignation of one of the legal advisers in the State Department who had participated in the earlier discussions. Subsequently there were informal discussions almost daily on blockade matters, and the main navicert problems were successfully solved during the visit of Rist and Ashton-Gwatkin in March and April.

(iv)

Contraband-Control Problems

The British Government looked to the navicert system to provide effective control of American exports in a form which would avoid

¹ In a despatch from the embassy in April 1942 it is remarked that 'in spite of the greed of the American press for copy, no single article has, so far as is known now, appeared in the American press criticizing the operation of the navicert system'.

disputes over the exercise of contraband control; unfortunately, as we saw in the last section, the action of the United States Treasury early in December prevented complete success on these lines, and various possibilities of friction remained. Moreover, the more or less formal protests of the United States Government about such matters as censorship and the control of enemy exports were a warning that Allied action might produce incidents of dangerous magnitude in these fields. Great efforts were, therefore, made to find devices whereby friction could be avoided without a serious impairment of the Allied economic offensive.

American complaints were summarized by Mr. Grady in his conversation with Lord Lothian on 2nd January. He said that American feeling was getting restive on three grounds. First, because it was felt that the navicert system implied acquiescence in the exercise of control over American trade in America by a foreign government carrying out a belligerent policy; secondly, because of the feeling that the war was nullifying the trade agreement so that while Britain ceased buying apples and tobacco in the United States, she bought fifty per cent. of the Canadian crop and was making an agreement to buy Turkish tobacco for twenty years, that is to say, long after the war; thirdly, because of the interference with mails, delays in shipping, cables, and so on. They went on, as we have seen, to discuss the navicert system in more detail. Grady's assurances that the Administration was anxious to do everything it could to avoid making difficulties for the British in their economic war against Germany, and his warning that the State Department would have to face severe pressure on these points after Congress met, were certainly given due importance in London, and while the Ministry of Economic Warfare was left to deal with navicerts, the Foreign Office concerned itself, not very successfully it must be said, with the other problems. On 11th January a telegram to Lothian pointed out that the answer to Grady's second point was really obvious; 'we are already spending in the United States far more than we have ever been allowed to earn there and our purchases in that country will be limited during the war only by our dollar and gold resources'. He was promised, however, further material to answer this complaint. With regard to the miscellaneous vexations under the third head, the telegram insisted that everything possible was being done to reduce delay and inefficiency, but 'the machine is bound to take a little time to run'. Moreover, 'a large part of the delays to mail and so on is more the result of war conditions themselves than of contraband control or censorship'.

Apart from the general effort to reduce delays by administrative improvements, there seemed to be three lines along which some progress could be made. The first was the making of special arrangements

with regard to the exercise of contraband control in American waters. The second was the elimination of the grievances of shipping companies—particularly those trading in the Mediterranean—by making better known the facilities which already existed. The third was the devising of means to avoid the possibly dangerous consequences of diverting United States ships to bases within the 'combat zones'; this meant more particularly the devising of some alternatives to the use of Kirkwall. These problems were, of course, interrelated, and the Government's efforts were complicated by the fact that some of its alternatives were no more pleasing to the State Department than the basic procedure.

So much was this the case that in the third week of January the accumulating irritation of the State Department against the British Government found expression in a public display of petulance which took both the embassy in Washington and the government in London by surprise. It was of short duration, but it was sufficient to show that official criticism in Washington of British policy was by no means due solely to the desire of a sympathetic Administration to stand well with American public opinion. Although this may have been very largely the case with regard to the various formal reservations of neutral rights in November and December, it also appeared that among certain 'legalistic minds' in the State Department the British failure to give various assurances before introducing the navicert system rankled, and the officials seem also to have been ruffled by a series of protests from Congressmen and private individuals concerning the British treatment of United States ships and cargoes. These had not received much publicity in the press, but they seem to have been pressed on members of the State Department more vigorously than the embassy knew, or than public feeling in general justified. There seems also to have been real anxiety in certain official quarters lest some American ships should suffer loss or damage after diversion to Kirkwall and should cause an explosion of rage against, not the Germans, but the British. Another section of the Department, headed possibly by the Secretary of State himself, and certainly by some of his closest advisers, was alarmed at the effects of British war-time measures on United States trade (particularly in tobacco), and inclined to suspect an attempt to use war-time necessity as an excuse for diverting trade permanently from the United States to foreign countries, especially Argentina and Turkey. Finally, certain officials believed that, while the Administration had shown the utmost friendship compatible with American public feeling, the British had been trading on that friendship and had shown more regard for states like Italy which had greater nuisance value.

The State Department did not speak to the ambassador about this mounting sense of irritation, and the absence of Mr. Kennedy, the

United States ambassador, from London was also unfortunate. A series of incidents brought the grievances to a head towards the end of the third week of January. One was the publicity given to the examination of mail in an American aircraft at Bermuda; another was the publication of the United Kingdom's reply to the United States note regarding the examination of ocean mails. The formal announcement in Parliament of the Turkish tobacco arrangements on 16th January was apparently the 'final straw', and it was reported a little later that the President himself had been annoyed by this. In none of these cases, nor in such actions as the stoppage of lubricating oil, had there been any adequate prior building-up of the British case to the American correspondents in London. According to a letter from the embassy on 3rd February, 'the less friendly and more irritated elements in the State Department decided that the moment had come to demonstrate publicly how jealous the State Department was of United States Government rights and how active it was in protecting United States interests. Possibly one or two people saw an opportunity not to be missed of administering a sly dig at us.' A representative of the *New York Times* was summoned to the Department on Saturday, 20th January, and given an account of United States grievances which appeared in the press on the following morning. A very sharp *aide mémoire*, dated 19th January, set out the Administration's views on the delays to United States shipping, and said that the Government

regrets the necessity of being forced to observe not only that British interference, carried out under the theory of contraband control, has worked a wholly unwarrantable delay on American shipping to and from the Mediterranean area, but also that the effect of such action appears to have been discriminatory. Since ample time has elapsed to permit the setting up of an efficient system of control, it would seem that the present situation can no longer be ascribed to the confusion attendant on early organization difficulties.

The note went on to assert that American ships proceeding to or from United States ports had been detained at Gibraltar for periods varying from nine to eighteen days; that cargoes and mail had been removed from them; that official mail for American missions in Europe had been greatly delayed; that in some instances they had been ordered to proceed, in violation of American law, to the belligerent port of Marseilles. A list was attached of American vessels detained between 15th November and 15th December; the average delay amounted to approximately 12·4 days, whereas 'it is established that Italian vessels detained during the same period were held for an average delay of only four days'. The statement ended with the remark that the United States Government 'will appreciate receiving

advices that the situation has been corrected'. There was no polite suggestion that the British might be able to offer explanations, and the *aide mémoire* was published on 23rd January, before the embassy had had a chance to deal with the matter.

An echo of this storm was an article in the *London Times* of 22nd January, summarizing the views of its Washington correspondent; these were rightly accepted in the Ministry as a warning that American interest in shipping delays had been underrated. The account said that there need be no question 'that the feeling of annoyance in government circles provoked by interference with American mails, and by what is felt to be the stiffly uncompromising position taken by Great Britain in this and other matters, is on its way to become resentment. Mr. Hull has not hesitated to reflect this in his communications with the press.' Protests from individual citizens and trading companies were reaching the Department in increasing and impressive numbers. As far as the examination of mails went, 'it is obviously the feeling in official quarters that the advantage thus gained by the Allies cannot be large'. 'Something, but not yet by any means as much, of the same feeling' had been roused by the ban on shipments of American lubricants, and the determination to reduce purchases of American tobacco. The correspondent's general argument was that for political reasons the Administration could not ignore these complaints, and that the British would lose more than they gained by not making concessions.

The British Government's view was rather that its actions were so necessary to the successful prosecution of the war that it should not be impossible to convince the overwhelmingly pro-Ally majority in the United States that few 'concessions' were possible or desirable. Unfortunately this majority was not 'blockade conscious', and while the Ministry and the Foreign Office succeeded well enough (when they remembered to do so) in putting their case to the United States Government, they found it less easy to bring their views before the American public. They were hampered by the difficulty of conducting in the United States any independent publicity or propaganda campaign, by the impossibility in many cases of publishing the evidence on which their action was based, and by the care with which, at this period, the Administration avoided any display of pro-Allied sympathies. Nevertheless, this particular storm blew over quickly enough, and the reason for this seems to have been very largely the failure of the public to react. A letter from the British embassy on 3rd February remarked that 'it was soon apparent here and in New York that the public were somewhat bewildered at what was going on, and that while they were quite prepared to bristle and protest at any arrogant British interference with their normal rights, they were not at the moment disposed to take the view that they were the

victims of British bullying'. On 22nd January Lord Lothian had a frank talk about the American grievances with Mr. Hull, who readily agreed at the end of the month that, in future, questions in dispute should be dealt with by discussion and not by the exchange of notes. As early as 26th January Lothian was able to tell the Foreign Office that there was now a 'reaction in State Department which I think feels rather uncomfortable about the whole business', but he added the warning that the campaign had left a sense of irritation throughout the country and that it would be necessary for the British to do something practical to show a desire to meet American views. He also pointed out that the Neutrality Act had removed all grounds for day-to-day controversy with Germany, which was the counter-irritant to similar American grievances in the last war.

The ambassador was clearly right in his insistence on the necessity for careful study of neutral policy and opinion, and the incident is a reminder to the historian that these problems, apparently so remote from the German economic structure which was the object of the Ministry's attack, were bound in the circumstances of modern war to play a vital part in the conduct of an effective blockade. But it was also necessary to educate neutral opinion, and this particular small crisis helped to bring home to the United States Administration, and even, perhaps, in some small degree, to the American public, the degree to which their friendship or hostility could affect the Allied cause. The next step, although this was not to be expected at once, would be a realization of the extent to which America's own interests were bound up with the success of the blockade.

It was not difficult for the Ministry to make a fairly convincing reply to the complaints of delays at Gibraltar. On 9th February Lord Lothian handed to the Under-Secretary of State an *aide mémoire* based on the Ministry's explanations, and took the opportunity of saying that he did not think the action of the State Department in publishing its own *aide mémoire* on 23rd January, without giving the British embassy a chance to deal with the matter, had been either fair or correct. 'The Under-Secretary indicated his complete personal sympathy with this view.' The British reply, after expressing great regret at the delays which had been imposed on American shipping, and after declaring that there was no substance in the contention that there had been discrimination against American ships in favour of Italian ships, went on to say that the exercise of contraband control was the main instrument whereby the Allied Governments were exerting pressure on Germany in order to relieve the threat to the liberties of the world involved in German military aggression. It then pointed out that the navicert system had been instituted in order that delays of the kind referred to could be obviated, and called attention also to the system of hold-back or 'Black Diamond' guarantees. The

reason for the difference in the periods of delay of United States and Italian ships was the greater readiness of the Italian Government and shipping lines to avail themselves of these facilities.

In the case of fourteen American ships detained at Gibraltar, which were considered by the Contraband Committee between early December and 22nd January, the manifest in respect of seven did not reach the Ministry of Economic Warfare until the arrival of the vessel. In two cases it was received simultaneously with the arrival, and in only one case more than two days before arrival. To some extent this is no doubt due to the suspension of the clipper service owing to bad weather last month. Nevertheless, one reason for the shorter detention of Italian ships at Gibraltar has been that the Italian lines have arranged that, in every case where air mail information would not reach the Ministry a week before the arrival of the ship at Gibraltar, their agents cable to London entire cargo lists from ports of loading in North and South America.

The speedier passage of the Italian ships was also helped by the fact that some Italian ships carried bulk cargoes, which was hardly ever the case with American ships. No less than eight of the nine American ships listed in the *aide mémoire* belonged to the American Export Line, and in a recent conversation with a representative of this line the embassy had found that he did not appear previously to have understood the working of the navicert system, or to have appreciated the facilities which, if fully employed, it could provide for his company.

On the previous day President Roosevelt himself had pointed out to Lord Lothian that the United States was particularly sensitive about delays to such crack ships as the *Manhattan* and the *Washington*, the two principal fast American liners on the European route, and that as these ships were invariably met by reporters on their arrival at New York, much publicity was inevitably given to any incidents at Gibraltar. The ambassador suggested, therefore, that anything which could be done to cut down the length of time that these ships were held up would be an advantage. As it happened, the Americans had little ground for complaint on this score; figures issued by the State Department on 24th February showed that between 8th January and 15th February these two liners had been delayed at Gibraltar only 'a few hours' except on 3rd-4th February, when the *Manhattan* had been delayed a day. Other figures given to the press by the State Department at this time showed that the *aide mémoire* of 19th January had been something of a mare's nest. After stating that between 1st September 1939 and 15th February 1940 the British had detained ninety, the French fourteen, and the Germans four American ships, it gave the following further figures:

Detention of American Ships by Belligerents

1st September to 15th February

Month	No. of vessels	Average length of detention
September	19	6·2 days
October	26	12·2 days
November	22	11·3 days
December	12	7·6 days
January	21	4·9 days
February (half month)	8	3·5 days
	108	

Detention of American Ships at Gibraltar

Month	No. of vessels	Average length of detention
October	5	7·8 days
November	4	14·0 days
December	9	9·7 days
January	19	4·2 days
February (half month)	7	—
	44	

These figures were given prominence in the *New York Times* on 25th February, although the paper's Washington correspondent, in reporting that the dispute had passed the stage of serious controversy, did not suggest that the State Department had accepted the British denial that the earlier delays had been due to discrimination. The British had to be satisfied with the more grudging statement that 'Great Britain had taken strong Washington protests seriously' and that apparently 'discrimination has ended'.¹

By this time it must have been clear to the United States Government that there was even less reason to complain of the British treatment of American shipping in northern waters. In the previous November the President had, as we have seen, defined the 'combat area' so as to exclude Bergen, and the Norwegian coast north of this port. This had been done in the interest of an American shipping company, the Moore-McCormack or Scantic Line, whose ships were in keen competition with Norwegian and Swedish lines using the same route. The British Government, while maintaining its right under international law to examine these ships and, if necessary, divert them to the nearest contraband control base (Kirkwall), showed itself only too ready to take alarm at the ambassador's warnings in December as to the dangerous effect on American opinion of

¹ Article headed 'U.S. Mail delay is cut to 3·7 days' (*New York Times*, 25th February 1940). The press release on which this article was based was in some degree a reply to the attacks of Senator Pittman on British policy.

any damage to United States shipping after diversion. From the beginning of December the ambassador had been in communication with the Foreign Office over a plan for the opening of a contraband-control base in Canada. The Foreign Office, which was hardly in a position to understand all the practical difficulties of such a scheme, telegraphed to Lothian on 6th January that the Admiralty was considering the establishment of a base in Canadian waters for the examination of mails and passengers carried on ships leaving or bound for United States ports, and asked whether he considered that the United States Government would welcome the use of such a base in preference to those in European waters. On the 8th, Lothian told the United States Under-Secretary of State that the British Government 'contemplated making an arrangement whereby American ships could be examined at Halifax, St. Johns¹ or Yarmouth instead of being taken to control ports in combatant area', and he explained to the Foreign Office that it was desirable that the proposed arrangement should apply to ships whose cargo had been only partly navicerted, as it would go a long way to mollify American feeling if no American ships in any circumstances were forced to enter a port in a combatant zone. In raising the matter with the State Department before the Admiralty had made its decision, and before the Ministry of Economic Warfare or the Canadian Government had even been consulted, the ambassador raised expectations in Washington which it was later found impossible to satisfy.

The attractiveness of a solution on these lines was, however, obvious enough. The U.S. Treasury's action in December made it impossible for the shipping companies to insist that all exporters should seek navicerts, and accordingly, although the British authorities were willing that ships whose cargoes were fully covered by navicerts when east-bound, or by certificates of origin when west-bound, should be examined at sea without being taken into port, the necessity for diversion remained. This led to difficulties, in the case of the Moore-McCormack Line, quite out of proportion to the number of ships involved. It will be convenient at this point to examine the Ministry's relations with this company in some little detail, as they illustrate very well the complexities of the problem.

The company had shown some reluctance to submit to the British contraband control, and even before the passing of the neutrality legislation ships of the line, namely the *Scanyork*, *Mormacport*, and *Scanmail*, had on certain voyages evaded the British patrols. After the President's proclamation the owners appear at first to have contemplated the transfer of some or all of their ships to non-American flags; this idea was dropped, but the agents of the line in London

¹ St. John (New Brunswick) was presumably meant.

told the Ministry on 13th November that the ships would sail direct to Bergen and Trondhjem round the north of Iceland. This was, however, 'not due to any wish to avoid the British blockade but merely to avoid the danger of crowded shipping routes menaced by German submarines, and also to keep a more direct course to ports outside the prohibited American zone'. The company had been prepared to insist that all cargo carried by their ships must be navicerted (see p. 346 above), but the action of the United States Treasury had prevented this. Although the company promised that every effort would be made 'to comply with British regulations so as to minimize delay', it was evident that the company's ships would do their best to avoid diversion, and that a substantial 'leak in the blockade' might result. The adventures of the company's ships soon began to find their way into the American press. The s.s. *Scanstates* had been permitted to go forward to Scandinavia from Kirkwall on 18th October, and in a subsequent American newspaper report was said to have transhipped a large part of her cargo to a German vessel at Gothenburg. A somewhat similar charge was made against the *Scanpenn*, which was allowed to sail on 24th November carrying detained cargo to Scandinavia on the shipowners' undertaking to carry it back to the United States unless it had been released before the vessel left Scandinavian waters. When the ship returned to the United States it was found that two detained items were not on board, although one of the items which had been discharged (130 barrels of lubricating oil consigned to Alfred Olsen & Company, Copenhagen) had been put under the control of the British consul there.

Accordingly, when the *Mormacsun*, belonging to the same line, was brought into Kirkwall on 3rd January after seeking to evade the British patrols, the Contraband Committee did not feel prepared to release the cargo without satisfactory guarantees. The ship carried a large mixed cargo, of which about one-quarter was covered by navicerts, but only two items were covered by destination guarantees. The owners offered an undertaking to carry back 'detained' or 'seized' cargo to the United States, or alternatively to give a Black Diamond undertaking for these items. The committee, however, after hearing a statement on 6th January as to the apparent failure of the company to carry out its undertakings in the cases of the *Scanstates* and *Scanpenn*, decided on 14th January not to accept a Black Diamond undertaking, but to wait for destination guarantees for various items. The United States embassy and the agents of the company both sent protests against the detention of the ship, although the agents informed the Ministry privately that there was no personal ill-will behind their letter, which was intended to raise 'the strict legal question'. The essential sections of the Ministry's reply may be quoted, as this was one of the few opportunities which it had of stating

the British position to American shippers. Replying to the assertion that the diversion of the *Mormacsun* was a violation of the American Neutrality Act, and that the owners would hold the British authorities liable for any consequential damages, the Ministry wrote:

As you will no doubt appreciate, the American Neutrality Act is a purely domestic piece of legislation without any binding effect except in regard to United States vessels and nationals, and cannot operate to prevent the exercise by His Majesty's Government of their lawful belligerent rights under international law.

I am further to draw your attention to the fact that the prescribed zone into which United States vessels are prohibited by the provisions of their own law from entering, is not of sufficient extent to prevent them from proceeding to a number of ports in neutral countries in Europe from which goods could easily reach enemy territory. For this reason alone it would be impossible for His Majesty's Government to refrain from exercising their right of contraband control.

As regards the possibility that United States vessels entering the prohibited zone may lay themselves open to penalties under United States law, Mr. Cross has difficulty in believing that they would be visited with any such penalties where they had not entered the zone voluntarily but under compulsion. If, however, any vessel were to be penalized in these circumstances, the matter would be one entirely between the United States authority and their own citizens, for which His Majesty's Government could not accept any responsibility.

The letter went on to say that for these reasons no claim arising out of the action with regard to the *Mormacsun* could be admitted, but that the owners could, if they wished, make a claim for damages in the Prize Court.

In the meantime the continued detention of the ship had, as Lord Lothian informed the Ministry on 26th January, 'worked up a certain amount of feeling' in the United States;¹ he had prolonged interviews with the representatives of the Moore-McCormack Line, and thought that the suspicion attaching to the company had clearly come as a rude shock to them. He urged that if the consignees' guarantees were still inadequate the Contraband Committee should accept a Black Diamond undertaking from the company. Apparently before this telegram was received the committee had, under pressure from the Foreign Office, agreed to allow the ship to proceed under a Black Diamond undertaking, although by this stage guarantees had been received in respect of all items of the cargo except one. It was also clear, by this stage, that the story of the transfer of cargo by the *Scanstates* to a German vessel was untrue; the Ministry's complaint against the *Scanpenn* had, on the other hand, not been satisfactorily

¹ There is a brief reference in Mr. Cordell Hull's memoirs, I, 733.

answered. On 26th January, however, the Ministry, as a result of representations from the Foreign Office, asked the Admiralty to allow two further ships, the *Mormactide* and *Mormacstar*, to pass the Northern Patrol without diversion to Kirkwall, and on 29th January an order was issued to the Fleet that in future no American ship was to be brought into 'the danger zone around the British Islands as declared by President Roosevelt'.

This action, which was taken by Mr. Churchill, as First Lord, without the prior agreement of Mr. Cross, was a direct concession to American pressure, and the Ministry had to accept it with as good a grace as possible as a surrender of British belligerent rights made in the interests of Anglo-American friendship. President Roosevelt had strongly recommended this course, and the action taken by the Admiralty had been urged by Lord Lothian in the telegram mentioned in the previous paragraph. He and the Foreign Office were still pinning their hopes to the idea of a control base in Canada; the Ministry had still not yet had an opportunity to point out the impracticable features of this plan. The annoying part of the whole business was, of course, that while the United States Government still spoke of the navicert system as a matter for arrangement between the British authorities and United States exporters, it continued to prevent its exporters from insisting on the navicerting of all cargo, and so effectively prevented the only convenient solution of the Kirkwall problem.

During the following weeks the Ministry had ample evidence of the awkward results of the decision of 29th January. It had to make the best terms it could with the Moore-McCormack Line, and its first problem was to secure some understanding with the company before the immunity of its ships from interception became known. Fortunately the owners appear to have been convinced by the *Mormacsun* affair that they must watch their step in future, and they ordered the *Mormactide* to suspend discharge of her cargo pending instructions from the Ministry. The Ministry 'felt that since our patrols had not intercepted the vessel we had no legal or moral right to exercise any form of control', and accordingly, by way of showing appreciation, replied at once that the whole cargo could be released. At a meeting with the company's representatives on 31st January the Ministry proposed that as a purely temporary measure the company should give a general Black Diamond guarantee in regard to unnavicerted consignments on such of its vessels as might be coming in the near future, and should send by telegram details of all unnavicerted items as soon as its vessels were fully loaded at the last United States port of departure. It was pointed out to the company's representatives that if their cargoes were fully navicerted all the difficulties which were causing them and the Ministry so much trouble would be over,

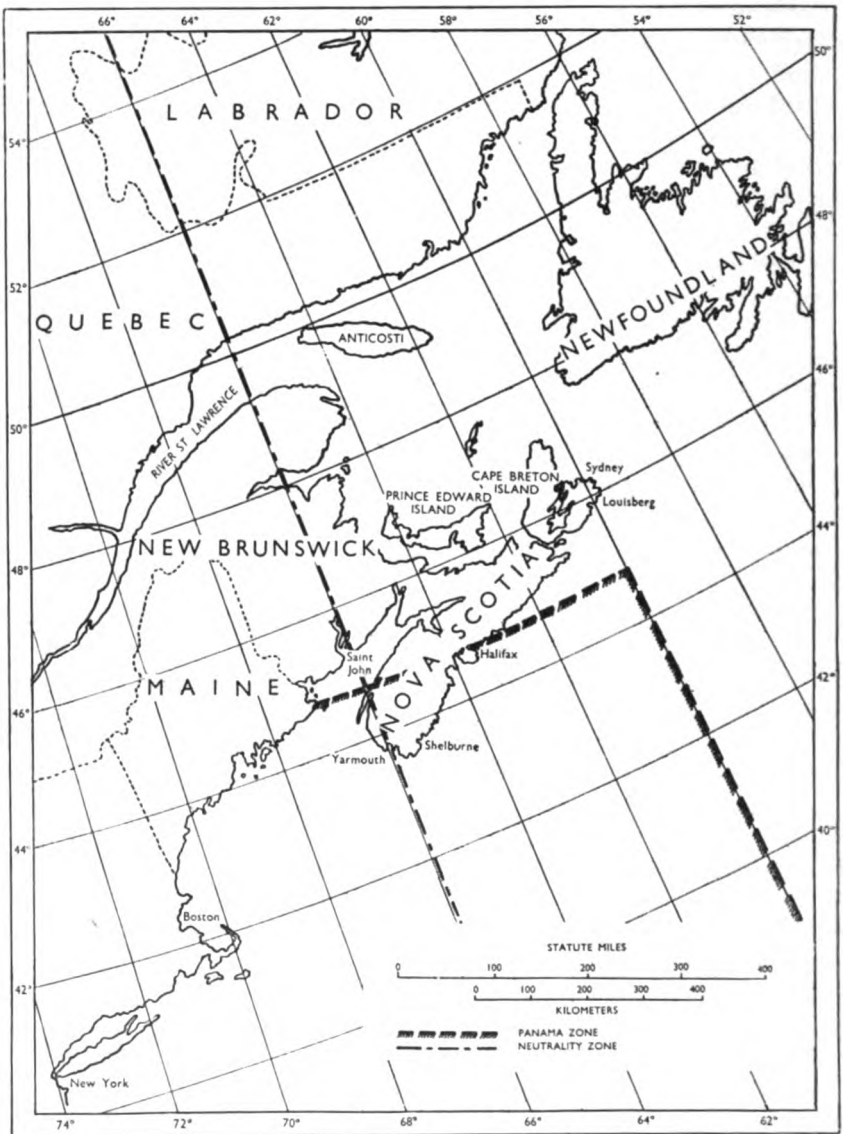
but they replied that, although they quite realized this, they were unable to insist on shippers obtaining navicerts because of the attitude of the United States Government. The company accepted the proposed terms and Lothian was able to arrange that details of unnavicerted consignments should be telegraphed by the British consul-general at New York at the company's expense. The company's ships continued to be dealt with under this arrangement until the German invasion of Norway.

Two difficulties very soon appeared. In the first place it was quite impossible to conceal for long the immunity of American ships from diversion, and their Scandinavian rivals very soon began to demand the same concession. The matter was in fact raised on 8th February, when Mr. Heiberg, a representative of the Norwegian legation, told the Ministry that the Moore-McCormack Company was reported to be advertising in America an assurance that its vessels did not go to Kirkwall for contraband control. Mr. Heiberg naturally asked whether similar arrangements could not be made with Norwegian shipping companies, and pointed out that if the Americans were able to advertise in this way, they would be in a most advantageous position from the point of view of trade rivalry with the Norwegian companies, who were their keen competitors. If discrimination continued it would 'create the impression that the British Government was prepared to go further for an important power like America than it would for Norway'. As this was in fact the case, the Ministry's reply could not be particularly convincing. The report that the company had advertised its immunity turned out to be untrue, but clearly the cat was out of the bag; by 11th February the Danes had added their protest. Sir John Gilmour, Minister of Shipping, wrote to Mr. Cross on 15th February that his department, which had not been consulted about the order to the Fleet and the consequent arrangements with the American line, had received a strong complaint from the Norwegian Shipowners' Association against this discrimination.

A second difficulty concerned mails. If the Moore-McCormack ships were not brought into a base, they could carry mail which would escape examination, either for censorship purposes or for contraband. This concession would in turn be demanded by other neutrals trading to Scandinavia, and very soon by the Italians, too. The Ministry had not asked the line for an agreement not to carry mails, as it had seemed very unlikely that it would agree, and the Ministry would have been powerless to insist. But the protests of the Norwegians and Danes showed that the charge of discrimination could not long be ignored, and the Minister accordingly proposed to Mr. Churchill and Lord Halifax, on 12th February, that instructions should be sent to Lord Lothian saying that: (1) the concession whereby American cargo went forward under a hold-back guarantee without calling at a

control base could not be continued for any length of time without an assurance that no unnavicerted cargo would be carried; (2) it was impossible to permit the continued passage through the patrols of vessels carrying mails unless a similar concession were granted to others; (3) accordingly, until arrangements were completed for the examining of mails and passengers at a Canadian port, the company must be asked not to carry mail. Mr. Cross thought that the company would insist on carrying mails, and that the British should be prepared in that case to divert their ships once again to Kirkwall. Mr. Churchill, in reply, agreed to the terms of a telegram embodying the three points, although he proposed 'difficult' for 'impossible' in the second. But although he did not, in as many words, reject the proposal to resume the interception of American ships, he referred in general terms to the importance of forestalling a dispute with the United States Government by an understanding as to navicerts and the setting-up of a Canadian base. Lord Halifax persuaded him to agree to the word 'impossible', but amended the telegram so as to allow Lord Lothian to give his own opinion on the Ministry's proposals. On 22nd February Lord Lothian telegraphed that any such request to the company would create strong resentment in Washington, and that the only satisfactory course was to open a base at St. John (New Brunswick). After this, some concession had to be made to the Scandinavian lines, and an agreement was reached with Danish and Swedish companies whereby, on the understanding that they would carry no mails, they would not have to enter the Kirkwall base. But at once another difficulty arose, for this brought them up against United States legislation which could compel ships to carry mail or be refused clearance!

In the meantime the discussions about a base in Canada had served merely to reveal the practical difficulties of any such scheme. In the first instance the Foreign Office had contemplated that the base should be used only for mails and passengers, but Lord Lothian at once pointed out that in this case, as complete navicerting could not be insisted on, ships carrying general contraband would still have to be diverted to Kirkwall. The immediate problem, however, was to find a suitable port. The Neutrality Act had prohibited resort by United States ships to Canadian ports east of 66° W. longitude. This appeared to rule out the best solution, namely Halifax (Nova Scotia). Both St. John (New Brunswick) and Yarmouth (Nova Scotia), which lay west of 66° longitude, were small and inconvenient. It was hoped that the State Department would agree to the use of Halifax, but on 15th January Mr. Sumner Welles told the ambassador somewhat unhelpfully that he had consulted the President, and that to require American-flag ships to go into Halifax would be a belligerent act in which the United States could not possibly acquiesce, even tacitly.



U.S.-Canadian Contraband-Control Problems

His government would be agreeable to the use of St. John or Yarmouth, but would have to hold the British Government accountable if ships were damaged owing to icebergs and fog. Then came the agitation about mails and shipping delays, and on the 24th Lothian telegraphed urging an early decision, as 'the President personally . . . now almost certainly expects us to substitute St. John's¹ for Kirkwall'.

It was only after the President's expectations had been raised in this way that the Foreign Office discovered the extent of the obstacles to its plan. In the first place it was necessary to secure the co-operation of the Canadian Government, and negotiations were not facilitated by the fact that news of the discussions in Washington leaked out before the Canadians had been officially consulted. A well-informed account had been given in the *Montreal Gazette* of 8th January; instructions were not sent to the United Kingdom High Commissioner to raise the matter until 25th January. He explained that the British Government had thought it best to take some preliminary informal soundings in Washington before troubling the Canadian Government with a complicated proposal, but he found Dr. Skelton, the Under-Secretary of State for External Affairs, hard to pacify. His resentment was all the stronger 'in that we were possibly handing Canada "a hot potato to hold".' The High Commissioner believed, nevertheless, that the matter would be seriously considered in Ottawa.

An interdepartmental meeting (between representatives of the Dominions Office, Foreign Office, Admiralty, and Ministry of Economic Warfare) on 26th January explored for the first time the full extent of the constitutional and administrative difficulties of the scheme. Considerable constitutional problems could be anticipated if the base were manned and financed on an 'extra-territorial' basis by the United Kingdom, apart from questions of seniority of command (which had already caused some difficulty in connection with officers of the Royal Navy and Royal Air Force in Canada). If it were established as a Canadian base pressure would be brought to bear upon Canada by the United States Government in order to obtain release of American ships. Serious mechanical difficulties were involved. If the actual control were operated from London, every word of the manifest would have to be telegraphed or teleprinted to London after the ship had arrived at the Canadian port. But as the ship would have arrived at a base about a week earlier than would have been the case if it had been brought into a base in European waters, it followed that the effect would generally be to add about a week to the time of the ship's detention. If sufficient staff were provided for the

¹ i.e. St. John (New Brunswick)—not St. John's (Newfoundland).

whole machinery of the Ministry of Economic Warfare to be duplicated there, the detention would be no longer (but no shorter) than would have been the case at the United Kingdom port. The Ministry would have to be assured that the control would be exercised on the same principles, and as thoroughly, as in London. In any case, the only advantage to the American shipper would be the avoidance of the combatant zone, and this result could be achieved much more simply for all concerned if the United States Government would encourage, or even cease to put obstacles in the way of, the universal adoption of the navicert system. In view of these formidable objections a telegram was sent to Lothian on the 29th asking him to go slow with regard to the Canadian base proposal; a long telegram of explanation followed.

A full statement of the position was sent to the High Commissioner, for transmission to the Canadian Government, on 1st February. On the 4th, a further message suggested that whatever the Canadian Government's views on the matter, it would be better for tactical reasons not to rule out entirely *ab initio* the possibility of the examination of cargoes at a Canadian base. Dr. Skelton accepted this view; a committee of three was appointed by the Canadian Cabinet to study the question, and it was not until the end of the month that a formal statement of the Canadian Government's views was given to the British High Commissioner. A note of 26th February then agreed in principle to the setting up of a base at St. John on the assumption that the British Government would establish and control operations.

In the meantime further examination of the question in London had served only to reveal additional practical difficulties. The Controller of Postal and Telegraph Censorship, in a note of 7th February, made weighty objections on the grounds of inadequate accommodation, lack of trained staff, and delays to mail owing to infrequent sailings. The Ministry accordingly suggested, on 29th February, that mails should be taken off at St. John and sent to England by the quickest possible means, where they would be examined and sent on to their destination, and it again asked the ambassador whether there was no hope of inducing the State Department to cease from discouraging full navicerting. This solution would also meet the case of American shipments which would proceed from the Great Lakes by the St. Lawrence in the spring. If these two points could be secured, the St. John base would be needed only for dealing with passengers.

By this stage arrangements were well advanced for the departure of the Rist-Ashton-Gwatkin mission, and there were already signs that the State Department would after all agree to a solution more or less on the lines desired by the British Government. It will be convenient to examine this liquidation of the earlier difficulties in connection with the work of the mission.

(v)

The Rist-Gwatkin Mission

The visit to the United States during March and April 1940 of the mission of Professor Charles Rist and Mr. F. Ashton-Gwatkin resulted in the dissipation of many of the misunderstandings and suspicions which had arisen in the State Department and among the American public about Allied contraband-control measures. The mission was also able to collect much useful information with regard to the control of exports from the United States of metal alloys and other materials of strategic importance, and it was able to advise Mr. Purvis in his discussions with American industrialists and with Mr. Morgenthau on the molybdenum, vanadium, tungsten, cobalt, and copper situations. It was not, as we have already seen, able to negotiate with the Treasury or State Department any strengthening of the American embargo policy, or any co-ordination of Anglo-American policy with regard to the restriction of supplies to aggressor states. As the latter was the original purpose of the mission it can be said, in a sense, to have failed; but in strengthening good relations between the two governments, and in preparing for the much closer collaboration which came later, it was an outstanding success.

Mr. Morgenthau's approach to Mr. Purvis in December 1939 (see p. 339 above) came at a moment when the Ministry was urgently considering the immediate pre-emption of the available surplus of molybdenum held by the chief world producer, the Climax Company of the United States. Molybdenum, a hard, white metal used for alloying special steels, was vital to the war effort of both Germany and Russia; it was believed that Germany had very considerable stocks (possibly more than eighteen months' supply), but that Russia had probably not more than a six months' supply in reserve. It had at first been argued that the pre-emptive purchase of molybdenum would be 'pouring money down the drain' in view of Germany's large stocks. But it was understood that Germany was not well stocked with nickel, and in view of the possibilities of substituting molybdenum for nickel and chrome it was thought that Germany might have to substitute more molybdenum for these two metals than the Ministry had hitherto allowed for. Only through Russia was Germany likely to receive substantial new supplies, and if Russia's stocks could be kept short little or none was likely to pass through to Germany. Russia's existing contract expired on 31st December, and as she might be expected at any moment to renew it the question of pre-empting the Climax Company's available stock was urgent. Mr. Morgenthau's statement as to his government's intentions changed

the position very considerably in the Allies' favour. He told Mr. Purvis that the President had under consideration plans for preventing further supplies of essential alloys and other war materials from reaching Germany, Russia, and possibly Japan, and that the President saw in these proposals 'grounds for the conception of a future policy for the maintenance of peace by depriving aggressor nations of essential war materials'. The immediate question was, he said, the action which could be taken to prevent molybdenum and substitute alloys from reaching Russia (and Germany via Russia) and Japan; he had secured an undertaking from the Climax Company not to ship molybdenum to these countries until further notice, and as this would result in drastic restrictions of the company's production he desired information as to the quantities Great Britain and France were likely to purchase for their war purposes in 1940. He asked further whether similar action would be taken by Empire producers of nickel; how far molybdenum and substitute alloys were essential to Germany for war purposes, and the extent to which they could be prevented from reaching Germany. This was followed by the President's press statement of 15th December placing molybdenum and aluminium under the moral embargo.

There was general agreement in the Ministry and other British departments concerned that this was 'a magnificent gesture from the U.S.A. along the right lines', and although certain problems at once suggested themselves the general tendency was to attach too much importance to the American initiative. It did not become clear until later that in asking for information Mr. Morgenthau was not asking for collaboration in action, and that any further steps which might be taken by the United States Government would be unilateral. The problems which suggested themselves in London were both political and economic. There was the immediate question of purchase and it seemed necessary to guard against any indefinite expansion of production by the company at the Allies' expense. The Foreign Office visualized the danger of embarrassing political complications in relations with Japan.

In the case of Germany the British policy was naturally one of absolute embargo, and it was prepared to co-operate with the United States in various ways. In the case of Russia somewhat different considerations applied; the two countries were not at war, but her more or less open hostility to the Allies, her action in Finland, and the recent League resolution 'appealing' to members 'to refrain from any action which might weaken Finland's power of resistance' had led to restrictions on United Kingdom exports so stringent that for the moment practically nothing was being exported there. It was doubtful, however, whether at this moment the British Government, and still less the Dominions and India, would wish to associate themselves

with an absolute embargo, moral or otherwise, proposed by the United States against Japan; the French were even less likely to make any move, as they were threatened on the northern frontier of Indo-China by the Japanese expedition in Kwangsi. Canada, as the principal world producer of nickel, would have to decide whether exports should be further restricted; the Canadian Government had already adopted an export-licensing system which had been used to restrict exports to both Russia and Japan. Exports to Russia had been stopped completely as a result of arrangements with the Mond Nickel Company. In the case of Japan, this company had been authorized to deliver 800 tons during the quarter ending 31st December 1939, as against 1,635 tons contracted for delivery in 1939; the balance of 835 tons was to be delivered in January and February 1940. The Japanese had asked for more than 2,000 tons during the first quarter of 1940.

Mr. Morgenthau on 22nd December asked for the combined French and British views. On 23rd December a long telegram was sent to Mr. Purvis by the Anglo-French Co-ordinating Committee in London, confirming Mr. Morgenthau's views as to the importance of molybdenum to Germany, suggesting that the Climax Company should not increase production over the previously-estimated consumption for 1940, and asking whether, if surplus production were unavoidable, the United States Government had considered the possibility of purchasing for a war reserve. With regard to alloys in general, it pointed out that for special steels a mixture of alloys was essential, but the proportions could be varied very considerably; the main alloys were chrome, nickel, molybdenum, tungsten, vanadium, and, to a certain extent, manganese. Germany was believed to have a stock equivalent to between twelve and eighteen months' requirements of these alloys as a whole; this allowed for the possibility of substitution, and her reserves were probably largely intact. She was, however, showing great anxiety to obtain supplies of chrome. The prospects of controlling supplies were, therefore, as follows. *Chrome* came from Turkey, Yugoslavia, Greece, and the British Empire; Allied negotiations with Turkey should prevent any of the Turkish supplies reaching Germany; negotiations with Yugoslavia and Greece should greatly reduce German supplies from these countries. *Nickel*: the Allies should be able to control practically all supplies, as ninety per cent. of Norwegian production was dependent on imports of Canadian ore; the Finnish mines were not yet producing. *Molybdenum*: the United States was the main producer, and the Allies were trying to buy up the Norwegian and Rumanian production. *Tungsten*: sixty per cent. came from areas which the Allies could control; the balance came from China, Korea, and Siam, and the Chinese Government was anxious to continue deliveries to Russia in

exchange for armaments. Would the United States Government be prepared to take the initiative in exploring with the Chinese Government some arrangement to buy up Chinese production? *Vanadium* it should be possible to control with the co-operation of the Vanadium Corporation which controlled supplies from Peru. *Manganese* was produced by Russia in sufficient quantities to supply Germany with all she needed; but it could be used only for certain qualities of steel. The telegram also pointed out that the United States controlled practically all the refined output of two other rare alloys, columbium and tantalum. Great importance was attached to the control of quartz crystal and industrial diamonds. Other war commodities, such as mineral oil, copper, carbon black, tin, and rubber, were capable of relatively easy control, although it was recognized that some of these, such as oil, would probably raise serious political difficulties, and it would probably be better not to press for action with regard to these until more progress had been made over alloys.

This ambitious programme led the Foreign Office to send a further telegram on 29th December, warning Lord Lothian and Mr. Purvis that the British Government was not at this stage contemplating more than the rationing of Japan. Mr. Purvis on 2nd January 1940 telegraphed that the Administration's idea appeared to be that further discussions might usefully be pursued 'by informal joint groups representing the governments concerned, including the Canadian Government, and utilizing the help of industrialists from time to time'. An 'all or nothing' policy, expressing itself in the form of moral embargoes or otherwise, was much easier for the United States as a neutral country than the rationing of other neutrals, but when Mr. Purvis made it clear that for the Allies rationing might be the only course available, Mr. Morgenthau raised no objection. The original intention in London had been that experts on the question of alloys, and particularly of molybdenum, should be sent to assist Mr. Purvis; but on 3rd January, after discussions with the Ministry, M. Monnet proposed that a joint Anglo-French Mission should be sent consisting of persons conversant with economic warfare as a whole. This proposal was accepted by the Anglo-French Executive Committee on 5th January; Professor Rist and Mr. Ashton-Gwatkin were proposed as the experts. But here a hitch occurred. On the evening of 4th January Mr. Purvis received a telephone message from a representative of Mr. Morgenthau asking him to arrange for the postponement of the visit. He was assured that this was not because either was *persona non grata*, but he sensed that it would be unwise at the moment to press for reasons. After this there were further messages from Mr. Morgenthau to M. Monnet, asking for postponement of the visit on account of the delicate nature of the situation, and at the end of January the departments in London discussed the

advisability of abandoning the idea altogether, and leaving the negotiations to Mr. Purvis. Then the Foreign Office suggested that the mission should be sent quite openly to Washington to explain and deal with problems of contraband control, but that in the course of this visit secret discussions should take place with Mr. Morgenthau in regard to the control of exports of alloys. The State Department on 13th February strongly approved, and the mission arrived in New York on 4th March.

So by the time that the mission left for the United States its main purpose had changed; the instructions to the two representatives, dated 16th February, stated that the first object of their negotiations was to supply information in order to help meet 'protests and complaints now coming forward from the State Department about the operation of contraband control, etc.'. Their second, and secret, mission was to assist Mr. Purvis in his discussions with Mr. Morgenthau 'regarding the possibility of preventing certain essential commodities from reaching dangerous destinations'. After their arrival the position changed still further; the State Department showed the greatest willingness for full and friendly conversations, whereas the Secretary of the Treasury made it clear that the less conversation he had with the mission the better he would like it. Thus Dr. Feis, Economic Adviser to the State Department, 'went out of his way' to assure Mr. Ashton-Gwatkin 'that the "legalistic" attitude of the State Department had given place to a quite different spirit, and that it would not return'. On the other hand, when the two Allied representatives were presented to Mr. Morgenthau by their respective ambassadors on 11th March he at once told them that, speaking quite frankly, he had endeavoured to prevent their coming as far as he himself was concerned, and there was nothing they could usefully discuss with him since he had gone with Mr. Purvis as far as considerations of neutrality would permit him to go and perhaps further. He made similar statements on other occasions.

It very soon became clear that Mr. Morgenthau's position had been misconceived, and that it was for the State Department rather than the Treasury to deal with questions of moral embargo, and other forms of export restrictions. How far this confusion was due merely to a too expansive statement of views by Mr. Morgenthau in December, or to an exaggerated estimate of the scope of his proposals by the British Government, is not easy to say. There is other evidence of considerable uncertainty among American officials as to how far, in view of the very transitional state of press, Congress, and departmental opinion, they could safely go in any action favourable to the Allies. Mr. Morgenthau told the two ambassadors confidentially that his government had broadly gone as far as it could in restricting exports to neutrals; moreover, if he was to be able to give the utmost assist-

ance to the Anglo-French Purchasing Commission in respect of aeroplanes and machines it was imperative that he should not be drawn into blockade and other controversies which might lead to objections by other departments to the important activities which he was now pursuing without interference.

The mission achieved, therefore, very few positive results as far as essential war materials were concerned. There seemed no desire in the State Department to concert policy on export questions, although it was made clear that the Department would gladly receive, and would perhaps take action on, information about concrete cases.

Accordingly it was not found possible to achieve more than a provisional solution of the molybdenum and nickel questions. When Mr. Morgenthau met Mr. Purvis in Washington on 30th December he asked that every assistance possible should be given him by the Allies through the stimulation of the demand for molybdenum in their own and friendly countries, in order to make up for the sacrifice involved for the United States producers; but from this and later conversations it was evident that no closely worked-out and co-ordinated plan for the disposal of surpluses could be entered into by the United States and that each government concerned must act as it saw fit. The mission found that the Climax Company was not asking more than that the Allied Governments should guarantee, or 'finalize', their outstanding contracts with the company for 1940 at 10 million lbs., and should do so before 4th April, when the shareholders' meeting took place. After some delay the Anglo-French Co-ordinating Committee was able to give this undertaking a few days before the meeting. The committee on 8th April telegraphed the lines of an assurance to be obtained from the company in order to ensure that no molybdenum should reach Germany or Russia in 1940 whether or not the moral embargo were continued; the company's representatives replied on 16th April that they could not recognize any limitation on their freedom of action beyond the moral embargo, but recognized that if the embargo were raised they could not expect the finalization undertaking to continue.

The nickel position was more complicated. Germany, Russia, and Japan had in the past been large importers of Canadian nickel, and United States molybdenum interests were consistently suspicious of Canadian competition. Reports in the United States press continued to state that large supplies of nickel were going to Russia and Japan,¹ but exports had, in fact, been drastically reduced. Nickel exports from Canada were controlled by export licensing after 20th September 1939; no nickel had been exported to Russia since May 1939, and licences for exports to Japan were withheld, on the grounds of military

¹ *The New York World-Telegram*, 28th February 1940 (p. 2), said that Canada had not yet curtailed its shipments to Russia or to Japan.

necessity, after the last shipment to Japan under the 1939 contracts had been made in February 1940. During two visits to Ottawa (18th–20th March, and 1st–5th April) Mr. Ashton-Gwatkin put forward a request from the British Government that the issue of licences for nickel exports to Japan should be suspended temporarily, pending a settlement of the molybdenum question and further developments in connection with possible war-trade negotiations with Japan. There could be no doubt that if a choice had to be made between making terms with Japan, and avoiding offence to the United States, the Canadian Government and people would find the latter consideration overwhelming; there seemed indeed some likelihood that the supply of nickel to Japan would become an election issue. So for the time being no licences were given for nickel exports to Japan, and this was the position until the fall of France opened a new phase in United States policy.

The possibility of United States purchases of tungsten from China was discussed, but no definite decision had been taken before the fall of France (see Chapter XI).

The outstanding success of the mission in its negotiations with the State Department over contraband questions went far to compensate for any disappointment over the virtual failure of the ferro-alloy discussions. The 'new spirit' animating the Department was evident from the beginning of the negotiations. After a formal but friendly welcome by Mr. Hull on 6th March, discussions were arranged with officials of the Department, and the results may be summarized under the following heads.

Navicerts. It has been seen that on 19th February the embassy was sounded privately on a suggestion that this question should be handled 'on common-sense rather than on legal lines'; it was indicated during this informal talk that the State Department would like a measure of satisfaction regarding the third and fourth 'assertions'. At the meeting on 6th March the working-out of a formula was delegated to Mr. Hickerson of the State Department and Mr. Helm of the British embassy, and their proposals were telegraphed to London on 17th March. With regard to assumption three, the British were to state that navicerts would be withheld only in cases where the Allied Governments had reason to believe that 'goods in respect of which navicert is applied for are directly or indirectly destined for enemy territory'. The effect of this was that navicerts would not be refused on consignor grounds alone. The following statement was proposed with regard to assertion four.

That if Allied Governments should, in connection with their contraband-control policy, decide temporarily not to issue navicerts in respect of any particular commodity or commodities destined for one or more neutral countries, their decision will be made known

and the reasons for it explained to interested United States shippers by the quickest and most practicable means available. In so far as concerns rejection of individual applications for navicerts, the British embassy would be prepared to give to each applicant a statement of the reason for such rejection.

In recommending the acceptance of these terms Lord Lothian admitted that in both cases the American contention had been accepted. He argued, however, that it was 'relatively immaterial' if navicerts were issued to highly-suspect consignors if the consignees were entirely above suspicion. In return the 'sincere or passive co-operation of the State Department in the working of the navicert system' would be obtained, and although it was out of the question to obtain a categorical assurance that the Shipping Act of 1916 would not be invoked, he believed that this would not be the case so long as the system was operated on the lines suggested. Similarly, he did not feel that the promise to give reasons should give rise to great difficulties: the State Department had understood that in many cases it would be impossible for anything more than very vague reasons to be given, and had only asked that if a precise reason could properly be given it should not be withheld from the applicant. These proposals required the British Government to give binding assurances and left the State Department free to adopt any attitude it chose in response to pressure by traders or attack in Congress; Mr. Ashton-Gwatkin however strongly recommended acceptance on the ground that they were principally face-saving on the part of the State Department, and the Ministry accepted, after the Americans had rejected one or two suggested verbal amendments.

It became clear almost at once that this was the right course. On 16th April Lord Lothian handed to Mr. Grady a memorandum embodying the two assurances. The State Department had already agreed unofficially to a British suggestion that, as applicants for navicerts had by this time become accustomed to having their applications refused without reasons, reasons should be given only when asked for. From this stage the United States Government, although it continued to avoid official recognition of the navicert system, unofficially helped the embassy in every way possible in its operation, and gave no encouragement to correspondents who wrote about the refusal of navicerts. The relevant portions of the Shipping Act of 1916, as Lord Lothian had anticipated, were not invoked against companies refusing unnavicerted consignments, and the embassy was well on its way towards its goal of complete navicerting when the fall of France introduced a new phase in the navicert story.

Trade agreement questions, and agricultural purchases. These two questions were closely linked; they touched the work of the Ministry of Economic Warfare only indirectly, and can be discussed only

cursorily here. The State Department urged the importance of steps to meet the accusation that Allied economic-warfare measures were being utilized to harm United States trade. There was no doubt that British war measures—import control, exchange control, diversion of purchases—had infringed both the spirit and the letter of the Anglo-American trade agreement; the fact that British (and to a much less degree French) purchases in the United States were being diverted to arms and munitions did not alter the fact that purchases of agricultural products were severely curtailed, with a corresponding threat to the Administration's hope of securing the agricultural vote for the Democratic party. The undertaking to purchase Turkish tobacco for twenty years, and the failure to consider questions of timing and publicity in America when restrictions of such imports as tobacco and canned fruit were imposed, gave considerable opening for unfavourable comment. The embargo on canned fruit was particularly embarrassing, as the Trade Agreement Act was just then passing through the Senate. With regard to the Anglo-American trade agreement the British could in general only plead the over-riding considerations of the war and fall back on the 'escape' clause in the agreement. Concessions were, however, made; thus Great Britain agreed to take considerable, though diminished, quantities of tobacco and cotton, and also 20 million bushels of maize, a commodity which it did not usually import from the United States.

Detention of ships. By March 1940 this problem had ceased to be urgent, and it did not take up much of the mission's time. The State Department seemed fully aware by this stage that the full application of the navicert system was the best means of removing difficulties under this head.

Diversion of shipping: mail censorship. Here the mission had to continue the negotiations over the setting-up of a control base in Canada. Mr. Ashton-Gwatkin visited Ottawa on 18th–20th March; the Canadian officials with whom he spoke expressed their strong preference for Shelburne (Nova Scotia), but the government could not make a decision until after the general election on 26th March. He paid a second visit with Professor Rist at the beginning of April (1st to 5th); the Canadian Government now gave its final approval, and the Shelburne suggestion was placed before Mr. Sumner Welles on 9th April. He was unable to agree to either Shelburne or Halifax, although he would not object to Sydney (Cape Breton Island) in the north of Nova Scotia. This port was, like St. John's, Newfoundland, inconvenient both for climatic and navigational reasons, but it looked as if it would have to be accepted. The governing factor in the United States decision was the Panama Declaration. However, the rather absurd complications which had been necessitated by the Panama decision and by the United States Treasury's decision on

navicerting were brought to an end when Bergen and other Norwegian ports were proclaimed on 10th April to be within the 'combat area': the provision of a Canadian base at once ceased to be a matter of practical importance.

The exclusion of the Kirkwall base had meant that a regular safe route for enemy correspondence had been established in northern waters, and for some time (during the early stages of the Rist-Gwatkin Mission) the State Department continued to contest the right of the Allied blockade authorities to examine mails. On 15th March the State Department itself suggested a solution to what had appeared perhaps the most difficult problem facing the mission. This was that the mails might be carried in the ships of the Allies or of other neutrals if these could provide a service for mails via United Kingdom ports which would be quicker and not more expensive than that of the Moore-McCormack or Scandinavian lines following the northern route. The United States postal authorities made it their practice to route mails by the quickest and cheapest way, and it was clear that the government was prepared tacitly to accept the Allied examination. The proposal was welcomed in London, but like that of the Canadian base it ceased to be important after 9th April.

There was also the trouble over the 'Flying Clipper' mails. An Associated Press message from New York published in the newspapers on 22nd February stated that when the clipper landed at Bermuda on 18th January, the British authorities employed a force of marines armed with rifles and fixed bayonets in order to remove the mail for examination. This use of marines or other armed forces was denied in a press statement issued by the embassy in Washington on 26th February, but the allegations were still causing some stir in the United States press when the mission arrived. The State Department did not, however, think it necessary to raise the matter, and when the Pan-American Airways Company dropped the call at Bermuda and flew their clippers direct from the United States to Portuguese territory they provided a safe channel for enemy correspondence, and the possibility of disputes on this point was, willynilly, removed. Later, at the end of May, Lord Lothian was able to arrange that the clippers should begin to call again at Bermuda, and it was agreed that non-enemy mails should be examined only so far as this could be done during the normal stay of the clipper.

Exports from Germany. Although the State Department had not recognized the right of the Allies to interfere with enemy exports which had passed by purchase into neutral hands it did not try to insist on the acceptance of its views; instead it endeavoured to extend the range of cases in which the Allies were prepared to grant exemption. The resulting negotiations had many complexities, and will be described in more detail in the next section of this chapter. It was

found possible to include a comparatively innocuous statement of the position in the final report of the discussions.

On 27th April a State Department *communiqué*, summarizing the results of the Rist-Gwatkin Mission, was published in the United States press. Its issue had been suggested by the State Department, and it was deliberately intended to emphasize the 'new spirit' in which the Department had approached blockade questions since February. Mr. Ashton-Gwatkin remarks that it 'might have been more glowing if it had not been for our own hesitation and reluctance to appear to have undertaken more than we were able to perform, e.g. with regard to agricultural purchases and concessions on the subject of enemy exports'. By this stage the peculiar conditions and problems which had hampered full understanding between Britain and America during the first winter of the war were passing; with the German occupation of the whole of the coastline of northern and western Europe between April and June, the entry of Italy into the war, and the tremendous shock to the sense of security of the American citizen, a fresh method and approach to economic-warfare problems became imperative.

(vi)

The Problem of German Exports

The State Department followed up its official note of protest of 8th December 1939 with a second and more argumentative note of 17th January, which the Ministry felt to be very convincing on certain points. The note called attention to the awkward problem of 'blocked mark' credits, and claimed exemption for a wide variety of goods, including those 'essential to industrial, scientific, and agricultural pursuits in the United States', and only obtainable in Germany, commodities 'which contribute to humanitarian ends', goods purchased by the United States Government, books, periodicals, 'miscellaneous commodities, acquisition of which is necessary to avoid the destruction of small established businesses', and 'any purchases in which, in view of the facts, it appears that the balance of injury from intervention would be against American interests rather than against Germany'. The Ministry found, on examining the lists, that most of the commodities mentioned as unobtainable outside Germany could be dispensed with entirely, or replaced by satisfactory substitutes manufactured in America or by the Allies. On the other hand, the case for exemption of goods paid for by 'blocked marks' seemed in principle a strong one. The main object of the control was, after all, to prevent Germany from getting fresh

exchange resources, and not to prevent neutrals from getting payment out of Germany or from collecting debts.

But as usual the issues turned out on close examination to be very much less clear-cut. The question was under discussion in the Ministry during January and February, mainly in connection with two American firms, General Motors and the United Fruit Company. In the case of General Motors the blocked marks originated from dividend payments by their subsidiary, the Opel Works, and payments for exports from Germany were made sixty per cent. in 'blocked marks' and forty per cent. in foreign currency. The 'blocked marks' owned by the United Fruit Company were derived from their sales of bananas to Germany, and the proportion allowed for payment of exports from Germany could be used only if a certain percentage of further exports were bought in free currency. In both these cases, therefore, foreign currency was involved in addition to the blocked marks. The matter was fully discussed at a meeting with representatives of the Treasury, and the Intelligence and Financial Pressure Departments of the Ministry, and in February it was decided to refuse exemption.

The reasons for this decision may be summarized as follows. There were two main categories of 'blocked marks'—blocked balances arising from old clearings, banking credits, and investments in Germany, and blocked balances arising from current trading transactions with Germany (Aski marks). In both cases a certain proportion of free currency was required in payment for exports. In the case of Aski marks, which in some cases were available up to 100 per cent. for particular transactions relating to specified manufactured goods, 'the danger was that to allow the continued export of German goods against payment out of such blocked balances would be to encourage the replenishment of these balances by the further import of goods into Germany, so that in effect Germany would not be sending out goods in return for "bits of paper", but in return for the import of further goods'. To admit payment in such cases—which were in effect only private clearings—would make it extremely difficult to refuse to allow exports from Germany to any country with a favourable clearing balance with Germany. If this were allowed there would again be a direct encouragement to that country to replenish its balances with Germany by sending further goods there. One suggestion put forward in the Ministry was that in order to make some concession to America, exports should be allowed which were fully paid for in blocked marks. But here, too, closer examination showed the danger of abuse. Any such action would, it was argued, immediately cause blocked marks to become one of the most sought-after currencies in the world, and the temptation to Germany to insist on some additional, concealed consideration would be overwhelming. It

would be impossible to control such evasion; there would, indeed, be nothing to prevent Germany from manufacturing a fresh supply of blocked marks and ensuring a constant stream of exports. Countries with a favourable clearing balance with Germany would have a very strong argument for similar treatment.

Little real progress was made in meeting the American demands until the arrival of the Rist-Gwatkin Mission in Washington. In March a group of United States firms, which were found on examination to have, in many cases, close German connections, sent Mr. Bert L. Hunt, formerly of the State Department, to press their claims in London. On 12th March Mr. Ashton-Gwatkin reported that the State Department had turned to the consideration of practical difficulties of control and on 16th March Lord Lothian sent to London the text of a draft statement about Enemy Export Control whose terms had been provisionally approved by the State Department, which proposed to publish it after it had been formally presented to them. Lord Lothian said that it had been clear throughout the discussions that the main purpose of the State Department had been to secure passage through the controls of enemy goods in respect of which payment had been made by United States importers or for which they were obliged to pay whether the goods were allowed through or not. Lord Lothian believed that it would be 'extremely difficult to convince American opinion that the stoppage of goods in which Germany had no further interest was contributing to our war effort'. The statement provided that goods irrevocably paid for before 1st January would be allowed through the control, and that cases where credit had been given or a part contract price paid would be examined with a view to the exemption of the goods. In respect to goods already ordered or about to be ordered by United States firms 'the British embassy would be happy to enter into discussions with the State Department with a view to reaching an agreement regarding the nature and total quantities of such goods as may be essential for United States industry, or specially required for medical, scientific or humanitarian purposes, and not obtainable elsewhere than in Germany'.

The concessions demanded were in fact so sweeping that one official in the Ministry remarked that 'it does not seem possible to placate them *and* fight the Germans. We must make the choice'. An amended form of the statement, practically nullifying the concessions which the Americans were trying to obtain, was sent to Washington on 24th March. The State Department strongly objected to this reply, saying that if it were published they would be obliged to retaliate; the strength of their objections seemed to make it clear that there was a considerable accumulation of exports paid for at the last moment and in advance of the contract date and now awaiting shipment. On

30th March Lord Lothian suggested, however, that while the group of firms represented by Mr. Hunt appeared to have hastened to pay for a large number of consignments before 1st January, there were also numerous firms who had been genuinely hard hit through no fault of their own, and these should be given special consideration. The French Government was strongly against any publication of the statement and wished it to be as informal as possible, and on 9th April a draft was sent to Washington which Lord Lothian was authorized to publish after consultation with the French embassy and the State Department.

Apart from the sweeping nature of the general concessions which the State Department was seeking was the fact that a number of the United States firms which were claiming exemption appeared to be enemy-controlled, or to be presenting questionable evidence. It was, of course, not surprising that many American firms dealing with German trade should have German names and affiliations. The firms which had formed the original 'Committee of American Importers' were the following:

- Robert Reiner, Inc.
- General Dyestuff Corporation
- Pioneer Potash Corporation
- Carbic Color and Chemical Co. Inc.
- Fish-Schurman Corporation
- E. Leitz, Inc.
- M. Hohner, Inc.
- Carl Zeiss, Inc.

Other firms soon associated themselves with the original eight. Mr. Bert L. Hunt was described in the *Washington Post* of 1st March 1940 as the State Department's foremost expert on the law of contraband and blockade, who had only recently resigned after drafting a majority of his government's notes protesting against Allied measures of economic warfare. He called at the Ministry on 8th April to state the case of these firms. He maintained that there had not been time for them to get their goods out of Germany between the date of the Order-in-Council and that upon which the control became effective. He claimed that all the members of his group were 'anti-Hitler', argued that there were six million American farmers, three million textile workers, and many American hospitals, whose activities would be prejudiced by the non-receipt of the German goods, and complained that the recent Italian coal crisis showed that Italy was receiving more favourable treatment than the United States. He also argued that delivery often took a long time—sixty, ninety, 100 days and even up to a year, as in the case of the General Dyestuffs Corporation which imported certain colours, treated them and sent them back to Germany for processing. He was told in reply that where

cases involved humanitarian considerations they always received the most sympathetic consideration, and that all the cases would be reconsidered, but that in the event of a refusal, no reasons could be given.

The fact was that the grounds of exemption which the Enemy Exports Committee had drawn up in December covered all the types of 'hard cases' that Mr. Hunt had mentioned, and it was on definite evidence that many of the concerns were German-controlled, or that their claims had not been substantiated, that exemption had been refused. On 12th April Mr. Cross and Lord Halifax discussed the problem with the American ambassador, who was willing to concede that the Ministry's action was '100 per cent. right from the point of view of the prosecution of the war'. But although the United States population was eighty or ninety per cent. pro-Ally the ordinary importer was unable to understand the British action, and the President and Secretary of State must be able to meet the complaints which were made to them. He asked for the maximum concession on the points which would be least injurious to Allied interests, and said it was desirable that the government should state definitely that certain classes of exports would be exempted, instead of using such language as 'considered sympathetically'.

When it came to the point it was difficult to provide the ambassador with evidence which would satisfy a court of law, and in any case the actual documents which were presented to the Ministry were always returned to the applicants. In the same way it was difficult to supply complete proof of enemy ownership, although the evidence was sufficient to satisfy the Ministry beyond reasonable doubt. Accordingly it was decided not to give Mr. Kennedy the names of firms, but to re-draft the statement to be published in the United States on the lines discussed with him on 12th April. In this form it included references to cases in America where questionable evidence had been presented, while avoiding mention of any firms by name. Importers who had grievances and who wished to have their applications reconsidered could apply before 1st June 1940 to the nearest Allied consular officer. This was approved by the United States ambassador and sent to Lord Lothian on 18th April, and a further telegram to Washington stated that this was as far as London was prepared to go in meeting the wishes of the State Department.

But the State Department again raised the strongest objections, and said that if such a note were published it would be obliged to issue a reply in terms which would be bound to be disagreeable to the Allies. The deadlock seemed complete, and it was finally decided that the British and French should drop the idea of a separate statement and agree to the insertion in the State Department *communiqué* on the results of the Rist-Gwatkin Mission of a fairly vague paragraph

to the effect that it was recognized that there might be some hard cases among firms importing from Germany, and that these would be re-examined; further applications would be considered in respect of 'categories of goods which afforded matter for special consideration and are unobtainable elsewhere than in Germany'. This was finally published on 27th April.

On 11th May the United States ambassador asked for the release of goods in Dutch and Belgian ports in view of the extension of the war to these countries. Before a reply could be sent Holland had surrendered and goods there were treated as if in enemy ports. At the end of May, as a sign of appreciation for the help given by the American Government, export passes were granted for certain goods of enemy origin which would have been refused exemption in the ordinary course of events.

CHAPTER XI

OVERSEAS NEUTRALS: THE PACIFIC

THE application of Allied economic-warfare policy in the Pacific areas after September 1939 was complicated by the fact that the Allies had to consider not merely the actual war with Germany but the possibility of war with Japan. The British Government was well aware that the vulnerability of British territorial and economic interests in the Far East had been gravely increased as a result of the tying-up of the bulk of the British armed forces in Europe; its general aim was therefore to postpone a showdown with Japan while avoiding any action which would prejudice the British position with regard to outstanding problems in the Pacific.

There were, perhaps, three of these, all closely related, namely the direct and indirect threat to the British position in the Far East resulting from Japanese aggression in China; the political and economic links between Japan and her anti-Comintern partners in Europe; and the necessity for keeping in step with United States policy in the Pacific. The difficulties of the situation were complicated, as they had been for some years before 1939, by the fact that the strength and complexities of the Japanese position were not sufficiently understood by British or American opinion; throughout the thirties, currents of popular feeling in both countries were liable to sweep the two governments into showy acts of hostility towards the Japanese, although there was clearly no popular demand in either country for a Far Eastern war. The outbreak of war eased the position in this respect as far as British public opinion was concerned, but in the United States it was still necessary for the government to give periodical demonstrations of its opposition to Far Eastern 'appeasement'.

(i)

Pre-War Background

The possibility of restraining Japan by economic pressure was examined during the thirties from various angles, first as a sanctions policy under the League, later as a retaliatory measure against

Japanese discrimination, and then as part of the economic-warfare plans which were being elaborated after the summer of 1937. The conclusion which emerged continually from these discussions was that United States collaboration was essential to the success of any such policy. The question was examined in some detail by the A.T.B. Committee after the outbreak of the Sino-Japanese war, and a report by the I.I.C. in October 1937 concluded that after the exhaustion of existing stocks the economic life of Japan could 'not continue without supplies from sources *ex hypothesi* under our control', but that 'without the *effective* co-operation of the United States as well as the whole of the British Empire, no measure of boycott would attain its object'. Raw silk exported from Japan was (by value) eighty-three per cent. to the United States and five per cent. to the United Kingdom. Although this commodity represented only 18.6 per cent. of the total value of Japanese exports its importance to Japan was enhanced by the fact that, unlike other textile exports, it required no import of raw material for its production. The livelihood of millions of Japanese agriculturalists depended largely on its export. There were no export commodities other than textiles whose export was worth considering from the point of view of an economic boycott.

Japan was, however, very largely dependent on the British Empire and the United States for raw materials for her export industry and her armaments industry. The most important of these raw materials were iron ore, non-ferrous metals, petroleum, rubber, wood-pulp (for cellulose), raw cotton, wool, and jute. The deficiency in iron ore was partly made up by a huge importation of scrap iron from the United States. Reserves of non-ferrous metals had been accumulated by means of exceptionally large imports during 1937. With the exception of copper from the United States, the British Commonwealth was Japan's main source of supply for non-ferrous metals. The Commonwealth was also the main source of supply of rubber and textile raw materials, the United States of petroleum. Japan imported over three million tons of oil fuel from the United States and about a million tons from the Netherlands East Indies, where fifty-six per cent. of production was under the control of the Royal Dutch Shell Group, and thirty-two per cent. under the Standard Oil Company of U.S.A.

A more elaborate plan for economic warfare against Japan was completed in February 1938, and this also laid stress on the importance of reaching an agreement with the United States.¹ There was, however, no prospect of any such agreement at this stage. The United States Neutrality Act of May 1937 was not invoked against Japan; the President's 'quarantine' speech of 5th October 1937 raised hopes, but

¹ In December 1937 the Committee of Imperial Defence gave instructions that the preparation of a definite plan for exercising economic pressure on Japan should have priority over the preparation of a similar plan for Germany. See p. 14 above.

Mr. Sumner Welles told the British *chargé*, Mr. Mallet, that he interpreted 'quarantine' as a remote and vague objective; the President had not intended to suggest it as the prelude to an immediate policy, and emphasis should, on the contrary, be laid on the last sentences of the speech. 'America hates war. America hopes for peace. Therefore America actively engages in the search for peace.' At the Brussels conference the United States delegates did not go beyond a promise that America would share in the common effort to devise a means of finding a pacific solution.

The possibility of Anglo-American economic pressure on Japan continued to be discussed from time to time, but no substantial step was taken during 1938 and 1939. The United States continued to be the largest supplier of commodities essential to the Japanese war effort, although the moral-embargo policy, set out in a letter of 1st July 1938 from the State Department to manufacturers and exporters of aircraft, seems to have been effective in the case of aircraft, aircraft armaments, parts, and accessories. Meanwhile the British Government watched carefully the growing restrictions on the trade and freedom of movement of British nationals in the Japanese-controlled areas. The League resolution of 30th September 1938 did not go beyond a statement that China was entitled to the sympathy of other members of the League whose duty it was to consider how far they could individually extend aid to her; in October, however, the Chinese Government requested the British Government to implement its commitments under the relevant League resolutions by economic pressure on Japan, and referred to action already taken by the United States. Inquiry of the State Department showed that the restriction of arms exports was limited to the moral embargo on the export of aircraft or aeronautical equipment which might aid or encourage the bombing of civilians; with regard to credit, the United States Department of Commerce had in June 1938 expressed the belief that 'in view of increasingly severe Japanese restrictions, United States exporters should hold a confirmatory forward letter of credit before accepting orders from Japan'. At the end of the year the Foreign Office was able to show that British action had more or less kept step with that of the United States.

The British Government's views were set out in a long telegram to Washington of 23rd January 1939 which in general reaffirmed conclusions arrived at in November 1937. These were that Japan could continue the war for some months without further importation of essential war materials, except possibly certain mechanized transport and aviation spirit; an embargo by the British Commonwealth and the United States on selected commodities required by Japan would cause her serious difficulty, but in the absence of a world-wide scheme of international rationing, Japan could not be prevented (except by

military action) from acquiring supplies from alternative sources in non-retaliatory countries. A United States-Commonwealth embargo on all Japan's export trade would be highly embarrassing for her, but not immediately decisive. A refusal of bunker and port facilities she would probably find especially provocative, and she might well retaliate against United States and British shipping in the Far East. Even the co-operation of all the countries conceivable in the existing circumstances could not entirely prevent Japan from acquiring necessary supplies of raw material. In general, the adoption of measures sufficiently drastic to achieve the results desired would involve the risk of grave counter-measures by Japan and might lead to war.

Anglo-American action was, in fact, confined to certain parallel measures of support for China, including the announcement on 19th December 1938 of plans for a credit of about £500,000 to facilitate British exports (mainly in the form of lorries for the Burma Road), and in March 1939 the provision by Great Britain of £5 millions to help establish a currency stabilization fund to facilitate China's trade with the outside world. There were other schemes, including a Sino-British undertaking to connect Kunming by rail to Rangoon.

The renewed international crisis in Europe which followed the German occupation of Prague on 15th March 1939 at once produced Chinese proposals for collaboration in the Far East in the event of war.

Lord Halifax confined himself to saying to the Chinese ambassador that he thought it no bad thing to examine all possible contingencies while there was time, and he defined the cabinet's policy in a telegram of 11th April to the British ambassador, Sir Archibald Clark Kerr.

Your Excellency will of course appreciate that the British position in the Far East in the event of a general European conflagration will depend to a great extent on the attitude taken by Japan. So long as Japan remains neutral, even malevolently neutral, we shall do everything possible to prevent her from siding actively with the enemy powers. To that end we shall be compelled to avoid too open a collaboration with the Chinese Government in their struggle with the Japanese. It is possible that the present enquiry arises out of the desire of the Chinese Government to forestall, or at least delay, any change in the attitude we have adopted hitherto by getting us to commit ourselves in advance to an understanding with them.

This line was followed until the outbreak of war in Europe in September, in spite of the acute crisis over the Japanese blockade of the British and French concessions in Tientsin.

Germany had a considerable import trade with China and the Netherlands East Indies, and a little with Siam. The more important

of these imports, and the proportion which they bore to Germany's total imports in 1938, are shown in the following table.

*Principal Imports into Germany (including Austria) from
China, Siam, and N.E.I., 1938*

	<i>N.E.I.</i> (1,000 <i>m. tons</i>)	<i>Siam</i> (1,000 <i>m. tons</i>)	<i>China</i> (1,000 <i>m. tons</i>)	<i>Percentage of Total</i>
Pig lard	—	—	6·180	14·5
Maize	7·383	—	—	0·3
Oilseeds, nuts, and kernels	146·515	—	7·807	8·2
Groundnut oil	0·015	—	18·777	94·6
Palm oil	11·143	—	—	35·5
Wood oil	—	—	7·293	99·7
Wool, raw	—	—	3·488	2·3
Cotton, raw, including carded and combed and waste	—	0·757	9·614	2·6
Sisal hemp	13·187	—	—	27·6
Hides and skins, unworked	0·912	0·46	3·279	3·1
Rubber, gutta-percha, balata	35·908	0·871	0·018	31·5
Nickel	16·571	—	—	48·4
Wolfram	—	0·108	8·962	63·9
Bauxite cryolite	192·829	—	—	16·3
Tin and alloys, crude, including scrap	4·556	—	0·879	42·1
Antimony, crude, including scrap	—	—	2·623	68·3
Petroleum and products	150·815	—	—	10·6

Exports of raw materials to Germany from Japan and Manchukuo consisted of soya beans and soya-bean oil in considerable quantities, and smaller quantities of groundnuts, perilla oil, buckwheat, bristles, hemp seed, and bean cake. At the outbreak of war figures for some of these exports were not available for 1938, but the 1937 figures give some indication of their value.

Principal Imports into Germany from Japan, 1937

	<i>1937</i> (1,000 tons)
Kidney beans	8·9
Black tea	0·1
Isinglass	0·2
Tinned crab	0·2
Tinned sardines	0·1
Tinned mackerel	—
Bristles	2·1
Vegetable oils	—
Perilla	0·2
Soya bean	0·7
Colza	0·6
Peppermint oil	0·1
Fish oils	—
Cod	0·8
Sharks' liver	1·9
Sardine	18·0
Whale	1·7
Fatty acid	1·9
Hardened fish oil	6·4
Manganese ores	2·1
Other ores	0·2
Rubber tyres	0·1
Fish meal	—
Sardine	6·9
Cod	9·4

The total value of Japanese exports to Germany was estimated at only £2,479,491 for 1937, and £1,925,885 for 1938. Exports from Manchukuo were, in fact, more important.

Principal Imports into Germany from Manchukuo, 1937, 1938

	1937 (1,000 tons)	1938 (1,000 tons)
Buckwheat . . .	14	14
Soya beans . . .	363	350
Soya beans (to Egypt)	652	847
Groundnuts . . .	15	7
Bristles . . .	101	67
Hemp seed . . .	6	8
Soya-bean oil . . .	19	15
Perilla oil . . .	4	3
Coal and briquettes . . .	2	1
Magnesite . . .	4	5
Talc and soapstone . . .	4	5
Bean cake . . .	4	—

Soya beans were transshipped in large quantities to Egypt for Germany. The value of these transshipments through Egypt was £2,124,000 in 1937, and £5,462,000 in 1938. The total value of all Manchurian exports to Germany was £5,063,763 in 1937, and £8,906,636 in 1938.

The British pre-war plans for economic warfare drawn up by the I.I.C. appear to have given little consideration to the possibility of a war in which Germany would be a belligerent, and Japan a neutral; the various schemes put forward all visualized the need for economic action against Japan itself, either as part of some scheme of sanctions or reprisals, or as part of a full-scale war. The particular situation which faced the British Government in September 1939 had not therefore been very fully studied on the economic side, but this was no doubt primarily because no difficulty had been anticipated over the interception of German imports from the Far East. It had also not been anticipated that Soviet policy or the carrying capacity of the Trans-Siberian railway would make possible extensive imports into Germany through Vladivostok.

(ii)

Trade Discussions with Japan
(September—December 1939)

The war in Europe produced, rather unexpectedly, a noticeable relaxation of Anglo-Japanese tension. The Soviet-German pact of 23rd August 1939 caused a considerable revulsion of feeling against Germany in Japan, and on 28th August Baron Hiranuma's government resigned on the ground that the pact had destroyed the basis of

its foreign policy. General Abe came into office with the policy of a 'clean slate', and there was a tendency to abandon the more extreme talk of an Asiatic Monroe doctrine; this was no doubt primarily an expression of Japanese apprehension at the prospect of increased trouble with the Soviet Union and of the disturbance of the ill-adjusted balance of political forces on which Japanese foreign policy rested. It seemed, too, in the words of a British commentator, that Japan would, 'with a lively recollection of the halcyon days of 1914-18', make 'every effort to replenish her coffers'. There remained, however, substantial obstacles to any far-reaching political or economic agreement between the two countries. In the first place Japan had clearly no intention of retiring from her Chinese adventure, or of making any substantial change in her conduct towards British and other white elements in that sphere. In the second place, Allied economic warfare against Germany was bound to affect Japanese interests in various ways; Britain could not forgo her belligerent rights in the control of German imports and exports, whether through European waters or through Vladivostok, and Japan showed no readiness to facilitate British economic-warfare measures (which were certainly less drastic than her own in her war with China). In the third place, any economic agreement, even of a temporary nature, was likely to cause unfavourable reactions in the United States, in spite of the very substantial volume of trade which Americans were still conducting with Japan. The moral-embargo policy meant a total prohibition of the export to Japan of a limited range of American commodities, whereas the only practicable basis for British policy was a rationing programme which would be based on Japan's pre-war consumption, and would therefore allow the importation of some classes of goods which Washington had embargoed.

Although these difficulties ruled out any real *rapprochement* between London and Tokyo there was willingness on both sides to consider some limited form of trade agreement, and discussions continued at a somewhat leisurely pace until the end of December 1939, when they were temporarily discontinued by the British Government. It became obvious very soon after the outbreak of war that Japan was growing increasingly alarmed over her supplies of some of the essential raw materials (such as iron ore, manganese ore, and bauxite) which she obtained from Commonwealth sources, and also over the monopolizing of the Australian wool supply by England. After M. Yasuto Shudo, the commercial counsellor of the Japanese embassy in London, had made some unofficial inquiries as to the possibility of a clearing agreement between the British Commonwealth and Japan, he called on Sir Frederick Leith-Ross on 23rd September 1939 with a proposal for semi-official discussions. Sir

Frederick told him that in their present form his proposals were more a matter for the Board of Trade than for the Ministry of Economic Warfare; from the Ministry's point of view the main problem was to see that Japanese goods did not reach Germany. He suggested playfully that the easiest method by which Japan could increase her trade with Britain would be to continue sending supplies to Germany, while informing the Ministry so that they could be intercepted.

It had already been decided that, as most exports to Germany from the Middle and Far East were seaborne, the Allies could rely for the time being on the contraband-control system and defer negotiations for war-trade agreements with countries in these areas. The Foreign Office was, however, willing to promote some improvement in Anglo-Japanese political relations in return for slight concessions to Japan in the economic sphere; some arrangement might for example be made whereby Britain would buy some goods which Japan was particularly anxious to sell, such as canned fish, soya beans, and raw silk, and refrain from restricting supplies of certain essential raw materials from the Commonwealth. M. Shudo's proposals, contained in a memorandum which he left at the Board of Trade on 29th September, were on these lines. The memorandum gave details of the goods which Japan was particularly anxious to buy from the Commonwealth and those she was prepared to export in return. Japanese exports would include foodstuffs—tinned fish, tinned fruit, fish and vegetable oils, and tea—raw materials, particularly silk, and manufactured goods, the importation of some classes of which was prohibited under wartime conditions. The more important goods which she wished to buy were machinery, metals, chemicals, and fertilizers. From a further Japanese memorandum setting out the payments position it seemed that a clearing agreement would be necessary, or at least an undertaking from Japan that she would buy United Kingdom manufactures up to a definite proportion of the value of British imports from her. All these were matters for the Board of Trade rather than for the Ministry.

The Ministry soon found its attention called to the overland route to Germany. Sir Robert Craigie, the British ambassador to Japan, referred to its possibilities in a telegram of 20th October. On 3rd November Sir H. Phillips warned the Ministry from Shanghai that a combination of German firms proposed to ship 10,000 tons of cargo, valued at £1 million, by Japanese vessels from Shanghai to Vladivostok and by train to Moscow, where the goods would be used for barter arrangements with the Soviet. Reports were also received from Kobe of cargoes of rubber and tin from Java destined for Vladivostok.

For political reasons the Foreign Office still desired a purely commercial agreement on however small a scale, in hope that it might lead to some improvement in relations generally; any economic-

warfare aims would have to be 'tucked away' in this general agreement in the hope that they would thus be less objectionable to the Japanese. A war-trade agreement could not in any case follow the lines of the usual voluntary rationing agreements with countries contiguous to Germany, since very little contraband actually passed through Japan. The matter continued to be examined between the departments concerned during November and December, but these discussions finally made it clear that, for the time being at least, it would be unwise to carry the negotiations further. It was felt that this problem of the contraband loophole through Vladivostok could not have been introduced without a demand for, to say the least of it, very embarrassing counter-concessions. It was highly improbable that Japan would agree to deny supplies to Germany with whom she had only recently (in July 1939) concluded a commercial agreement. In any case the denial of Commonwealth supplies could not, in the absence of parallel action by the United States, be regarded as a weapon strong enough to compel Japan to fall in with British plans.

The importance of keeping in step with the United States was emphasized by other considerations. The United States Government had announced on 26th July, at the height of the Tientsin crisis, the denunciation of the trade treaty with Japan of February 1911, and this would take effect, after the required six-months' period had elapsed, on 26th January 1940. So far the United States Government had not shown its hand, and the uneasiness of the Japanese was revealed in various ways. The extension of the moral embargo in December was followed, as we have seen, by proposals to Britain for parallel action, leading to the Rist-Ashton-Gwatkin Mission. There was no doubt as to the opposition of Washington to any real or apparent concessions to Japan.

The confidential discussions with the United States in December were not communicated to Sir Robert Craigie at this stage; but it was decided at the end of December that the British Government should make no further move towards an Anglo-Japanese agreement for the time being, and this was explained to Sir Robert, special emphasis being laid on the financial obstacles to an agreement raised by the Treasury and the Board of Trade. It had been found that the United Kingdom was likely to purchase from Japan in 1940 about £7½ millions worth of canned salmon, whale oil, and silk, but as the experience of the purchasing departments of the British Government had shown that advance commitments caused a rise in prices it was considered inadvisable to give any guarantees with regard to these purchases. Still less was it possible to give reassuring guarantees as to other purchases, which amounted in 1938 to £5·8 millions, and were likely to be severely cut in future. The possibility had then been considered of offering to guarantee total purchases of, say, £8 millions in

twelve months, but as Japan normally had a favourable balance of visible trade with the Empire sterling area of some £7 millions a year, which the British Government might well have to adjust under war conditions, it was felt impossible to make a commitment to this extent. In these circumstances the Government could only tell Japan that it would not be able, after such a short experience of war-time trade conditions, to give precise figures as to purchases from, and export to, Japan, and 'if this was all that we could say, it seemed better to say nothing'. The Foreign Office was, however, anxious to meet the Japanese on a piecemeal basis by allowing them a limited amount of commodities at certain intervals without entering into long-term contracts. Matters continued on this basis for some months.

(iii)

Problems of Interception (September 1939—June 1940)

Meanwhile the Japanese authorities had been showing considerable energy in challenging the British handling of contraband and enemy exports. There was, however, no desire on either side to allow these questions to produce, at this stage, a major crisis, and the British Government made various substantial concessions to Japanese interests and susceptibilities throughout this period. It will be convenient to trace the story of these discussions in this section down to June 1940.

No attempt was made to set up an effective system of contraband control in the Pacific, and no Japanese ships were intercepted in this area; orders for interception south of latitude $21^{\circ}21'N.$ were issued in April 1940, but were viewed with great uneasiness by the British ambassador in Tokyo and by the Australian and New Zealand Governments, and were not proceeded with. Japanese ships in European waters with suspected cargoes were, on the other hand, intercepted and detained, and after the Reprisals Order German exports for Japan were similarly detained. In the latter case the repeated Japanese demands for exemption amounted virtually to a demand for the suspension of the order, and for political reasons very considerable concessions were made by the British Government in reply. Accompanying the various protests and representations made by the Japanese embassy in London to the Ministry and Foreign Office were a good many attempts to draw the British into statements of general principle, which it was suspected might be used to justify arbitrary action by Japan on future occasions.

After various informal conversations, enquiries as to these points of general principle began with a list of questions from the Japanese embassy on 18th September 1939. Replying on the 30th the Ministry said that the Declaration of London had never been ratified and there was no intention of applying it in any form in the present war; the doctrine of continuous voyage would be applied alike to absolute and conditional contraband; no blockade of Germany had been declared, and neutral ships would not be prevented from sailing to or from German ports, but only from carrying contraband directly or indirectly destined for Germany. On the same day the embassy returned to the attack with a note asking for a formal assurance that the British Government had no intention of hampering in any way normal trade between Japan and European countries, and in particular that the following classes of goods should be released immediately if already detained and should not be detained or seized in future: (1) non-contraband goods; (2) goods destined for neutral ports such as Rotterdam, Antwerp and/or Scandinavian ports, whose consignees were neutral subjects; (3) goods consigned to Scandinavia via Hamburg. It was remarked in the Ministry that the second and third of these requests were 'astonishingly naïve even for the Japs'. The British reply made it clear that any shipments to ostensible neutral consignees in neutral countries would be seized should there be evidence of an ultimate destination to Germany, and that any goods going to a German port, even if said to be in transit to a neutral country, would be liable to be regarded as having an enemy destination and treated as such. There were further questions on 9th and 10th October as to the nature of the documents necessary to establish proof of neutral ownership.

The Japanese had also accumulated a considerable number of complaints about the treatment of individual ships, and the inevitable problem of delay. Cases were set out in a letter from the Japanese embassy to the Foreign Office dated 24th October. The complaints fell under four heads: (1) unreasonably long detention at ports in the United Kingdom; (2) the interests of Japanese subjects had suffered undue interference at ports in 'British Colonies'; (3) the contraband list covered a most extensive field; practically no distinction was made in the handling of absolute or conditional contraband; guarantees were required even in the case of very small parcels of goods destined for neutral consignees; (4) the British Government had given notice of its intention to examine certain seaborne mails on ships calling at, or diverted to, British ports. Lord Halifax's reply was not sent until 16th December. It attributed difficulties in the first two cases to the inevitable delays and inexperience of the early days of the war, and expressed surprise that complaint should have been made in view of the fact that two British vessels, the steamships *Sagres* and

Lalita, were seized by the Japanese authorities in the Far East on 24th and 27th April 1939 respectively, and were still detained, although no legal proceedings had been taken. The reply on the two other heads followed the normal lines; it ended by reminding the ambassador that the British Government could not admit 'any claims arising out of the legitimate exercise of their belligerent rights'.

By this stage, however, the Japanese had raised what were to prove their two major grievances against the Ministry. These were the detention of goods shipped to Germany before the war, and the control of German exports.

The first of these problems involved about 100 claims, of which about one-third were made by Mitsui, another third by Mitsubishi, and the remainder by Okura and a number of miscellaneous Japanese exporters. In December 1939 the Japanese embassy estimated the value of the goods at 20 million yen (about £1·2 millions). The matter was raised tentatively in the Japanese questionnaire of 18th September, and more urgently in a letter from M. Kodaki of the embassy on 27th September, which referred to the question of compensation for the 'seizure of the conditional contraband of neutral ownership which has left a neutral country prior to the outbreak of war to be sent to a belligerent'. A reply from the Ministry on 4th October said that in any case such cargo would have to be put into the Prize Court, but it would be released by the Procurator-General on application by the owner, provided that the latter was a neutral and that the Procurator-General was satisfied that the cargo would not be sent on to any destination which would make it liable to condemnation by a Prize Court. Any question of compensation would have to be discussed between the owner and the Procurator-General. The Japanese were clearly not attracted by the idea of leaving the fate of their goods in the hands of the Prize Court or Procurator-General. They raised the matter again on 24th October, in a letter which expressed dissatisfaction with the reply of 4th October and said that the Japanese Government held the view that goods which had left Japan prior to the outbreak of war should not be seized without compensation, even if they were contraband destined for enemy countries. The British reply on 2nd November said that if the Procurator-General decided to release the goods without actually putting them through the Prize Court there would be no case for compensation, since the goods would have been released, not condemned. If, on the other hand, it was decided to seek condemnation of the goods, then any claims for compensation should be made in the Prize Court. A Japanese *aide mémoire* of 1st December presented to the Foreign Office said that the Japanese Government could not accept the view that 'the decision regarding the release of such goods rests solely with the Procurator-General' and repeated the demand

for an assurance from the British Government that cargoes would not be condemned without compensation being made to the lawful Japanese owners. On 7th December the British embassy in Tokyo was told that the Japanese Government regarded the continued detention of the goods as a serious matter. The Foreign Office reply on 13th January again reiterated that the question of compensation was entirely a matter for the Prize Court; 'the liability of a captor to pay compensation depends on well-established principles of law to which the Prize Court will doubtless give effect'.

The fact was that there were considerable doubts as to whether compensation would be awarded in the case of many of the goods. The mere fact that the goods had been shipped before the war did not prevent their being condemned as contraband or as enemy property; no compensation was payable in respect of goods condemned as enemy property, and if they were condemned as contraband the owner was not entitled to compensation unless, after the outbreak of war and before seizure, he had taken such steps as were open to him to prevent their reaching the hostile destination. The Procurator-General regarded the question of the exact circumstances in which compensation was payable as one of great practical importance, as it affected not only the Japanese claims but also those of a very large number of other neutrals, including the Dutch. The main point of difficulty was that the three firms—Mitsui, Mitsubishi, and Okura—had German houses of trade incorporated under German law, and in many cases the goods which the Japanese embassy described as the property of the Japanese shippers seemed to have become the property of the separate German houses. It had also to be explained to the Japanese embassy on 6th February 1940 that the documents so far produced did not make an adequate examination of the claims possible. By this stage it was no doubt becoming clear to the Japanese Government that the British were not inclined to give up the point merely as a result of political pressure, and the firms had to set about collecting the necessary documents and presenting their cases claim by claim to the Procurator-General's Department.

The Japanese also showed great persistence in trying to secure the relaxation of the enemy-export control arrangements. The concessions secured down to June 1940 were very extensive; indeed the Reprisals Order was never fully applied in the case of shipments for Japan. The Japanese made considerable use in support of their claims of a statement which they had extracted from the Ministry in the first weeks of the war, to the effect that

the British authorities will not take any action towards neutral vessels carrying goods, destined for neutral countries, which are produced or manufactured in Germany and the transfer of whose ownership

has not yet been completed, even when they come into British territorial waters or stay in a British port, so long as they [*sic*] do not carry on any business transactions regarding such goods.

On 22nd September, the Ministry confirmed this statement in writing. The fact that the letter of 22nd September did not qualify the position with the words 'at present' (although no such qualification was really necessary) allowed the Japanese Foreign Office to announce on 25th November that the proposed British reprisal 'violates an undertaking made by the British Government not to interfere with the export of German goods'.

The Japanese Government made a formal protest on 27th November, and early in December Sir Robert Craigie reported great tension in Japan over the restrictions and urged that some concessions should be made. The chief concern of the Japanese Government was to obtain large cargoes of German heavy machinery for its factories and economic programme. It made sweeping demands. The British were requested (1) not to interfere with cargoes from Germany of machinery for government use and for factories under government control, or with certain special articles such as potassium, even when the contract was made after 27th November 1939; (2) not to stop goods for private firms carried by neutrals clearing from neutral ports after 4th December, if contracts and part payments had been made before the date of the Reprisals Order; (3) pending a decision on these two points to allow through all cargoes clearing before 1st January 1940. Concessions on this lavish scale would largely nullify the control, and such wide discrimination in favour of Japan would lead to trouble with other neutrals and demands for equivalent exemption. But while the Japanese demands were not accepted in their entirety, individual exemptions were so numerous as to give largely the same result.

One ship, the *Sanyo Maru*, which was expected to sail on 10th December, was described in the Japanese press as a 'test case'; the Ministry promised to give it special treatment if details of cargo and dates of purchase contracts and payments were supplied. These details were supplied, and seemed to show that final payment had been made before 28th November. The Japanese seemed very anxious that there should be no real examination of the vessel, that no packages should be opened, and that Japanese officials should be present during the search. On 16th December, after assurances had been received that goods on board of a naval character were *bona fide* goods for the Japanese Navy and that goods not shown on the manifest would be taken off the ship, it was decided that the *Sanyo Maru* should be allowed to pass through the control, and that up to and including 31st December 1939 similar treatment would be accorded to other vessels carrying German goods to Japan if similar

satisfactory assurances were given. After 1st January 1940 the provisions of the Order-in-Council were to be strictly enforced.

Things continued on these lines in regard to contraband and enemy-export questions throughout the first half of 1940. The settlement of the *Asama Maru* incident¹ made a more favourable impression, but feeling was still very antagonistic to Britain, particularly in the Army, whose influence was probably the most important factor in preventing any real improvement in Anglo-Japanese relations. But the British concessions on German exports, and the fact that the Japanese were not prepared to push the contraband question to an open breach, prevented any really major crisis over questions of interception.

At the end of December the Japanese asked for further concessions in respect of German goods on the *Mito Maru*, and, in spite of the obviously false nature of the evidence given, it was decided that the ship should be allowed to proceed, on condition that she sailed before 1st January 1940. It was hoped that this would be the last of the Japanese demands, but on 11th January 1940 word was received from Sir Robert Craigie that the government in Tokyo were requesting that two more ships, the *Muroran Maru* and the *Tazima Maru*, should be passed through the control. A reply was sent from London emphasizing the firm intention of the British Government to tighten the control, but on 5th February Craigie forwarded a further Japanese request, this time for the exemption of four ships, and he pointed out that the cargoes were of vital necessity to the Japanese Government. The Ministry recognized that one of the difficulties of the Japanese was probably that although they could perhaps obtain materials from other countries they could not pay for them, whereas they had credits in Germany which they could utilize for the purpose. In ordinary circumstances no exemption would have been granted for the two ships, but considerations of policy were again taken into account, and on 22nd February the Japanese embassy was informed that the ships would be allowed to pass in return for the embassy's assurance on behalf of the Japanese Government that they would not in future make applications for exemptions on the grounds that payment had been made unless able to produce satisfactory proof of payment. The embassy undertook to do its best.

These concessions might still be justified as falling within the initial period of leniency, but before long a definite decision would have to be taken as to whether some more or less permanent concession should be made to the Japanese demands. The cabinet

¹ On 21st January 1940 the *Asama Maru*, a Japanese trans-Pacific liner, was stopped 100 miles east of Yokohama by a British cruiser which fired two shots across her bows and removed twenty-one German passengers of military age *en route* for Germany. cf. C. J. Colombos, *A Treatise on the Law of Prize* (1940), pp. 210-12.

decided on 14th March that a fresh attempt should be made to reach a trade agreement with Japan. On 3rd April the Japanese ambassador left a note with Lord Halifax proposing, 'as a speedy and amicable settlement of this long-standing question', that his government should confine its request for the release of cargoes from Germany to eight special shipments of goods, and Lord Halifax referred to the possibility of some arrangement between the two governments with regard to the Vladivostok traffic, and the ambassador said that his government would consider 'any practical proposals'. It was agreed at an interdepartmental meeting at the Ministry on 24th April that the eight ships should be dealt with as part of the proposed war-trade negotiations with Japan. These negotiations are described in the last section of this chapter.

Meanwhile the policy of pressing for details of cargoes and documentary evidence of payment did not produce results. On 25th April word was received from Craigie that the Japanese were again complaining at the delay and at the necessity for documentary evidence of payment; they re-emphasized their denial of the British right to impose restrictions and claimed that they had gone a long way to meet the British by limiting their demands to eight ships only. On 26th April the Japanese ambassador hinted to Mr. R. A. Butler that the Japanese navy might find it necessary to send warships to fetch the vessels if they were not speedily released. Shortly after, the German invasion of Holland took place; some of the Japanese ships were thereby unable to leave Rotterdam, and on 13th May the Japanese asked that three ships, fully loaded, should be allowed to leave Italy and pass through the Suez Canal to be voluntarily detained at Aden. It was agreed that two should go, and then the Japanese complained that port facilities and conditions generally were very poor at Aden, and suggested that, as the Japanese Government feared for the health of its subjects if they were compelled to remain there for long, the ships should be allowed to proceed to Colombo or Singapore. They also insisted that their navy would not tolerate any unloading or unpacking of cargo. On 27th May the British Government gave in to these demands and the ships were allowed to pass right through without unloading. On 15th June, after the entry of Italy into the war, two more ships, partly loaded, were passed through the control. The commencement of negotiations in May on war trade and contraband control questions had facilitated these partial concessions; by the end of June the course of the war had introduced a new phase in this as in so many other spheres.

(iv)

China, Siam, and the Netherlands East Indies

Before the war Germany had received from China 99·7 per cent. of her total wood-oil imports, 94·6 per cent. of her groundnut oil, 63·9 per cent. of her wolfram, and 78·3 per cent. of her antimony. From the Netherlands East Indies the principal imports were palm oil (35·5 per cent.), sisal hemp (27·6 per cent.), rubber (31·5 per cent.), nickel ore (48·4 per cent.), tin and alloys (42·1 per cent.). All the Chinese ports, and the North China area generally, were, however, controlled by Japan, so that export from these areas was a matter for negotiation with Tokyo, rather than Chungking. The Chinese embassy suggested the negotiating of a war-trade agreement, but the area controlled effectively by the Chinese Government did not allow much scope for contraband trade with Germany. The trade routes from this area to Burma and French Indo-China were controlled by the British or the French; the outlet via the Gobi Desert could only be made use of by caravan, and the traffic was known to be small. In the same way Siam's exports to Germany via Vladivostok were so small as hardly to call for a war-trade agreement, and could presumably be subjected to Allied naval control.

There was a somewhat different position in the Netherlands East Indies. Exports from this area to Germany were extensive, but there seemed to be little point in attempting to negotiate a war-trade agreement covering Dutch colonial produce at a time when the negotiations with the Netherlands Government over its home trade were making extremely slow progress. It would in any case hardly be wise to propose such an agreement for the Netherlands East Indies until there was effective contraband control in the Far East, for it was unlikely that the Dutch would agree except under compulsion. Any attempt to interfere with the Japanese lines from the Netherlands East Indies by British or French naval control—i.e., by bringing the ships into Hong Kong, Singapore, or Saigon—would probably result in their avoiding the China Sea and sailing east of Formosa direct to Japan; it might lead to a major crisis if the Japanese chose to use their navy as escorts.

During the first months of the war it was, therefore, impossible to contemplate the setting up of any effective control system in the Far East, and the only practicable expedient seemed to be the use of pre-emption in suitable cases. This was seriously attempted only in the case of wolfram from China. The protracted negotiations on this subject throughout the first half of 1940 were, however, ultimately without result.

The estimated pre-war exports of Chinese wolfram (tungsten), according to the Ministry's figures in December 1939, were as follows: 7,050 tons (1936), 16,518 (1937), 12,358 (1938), and 4,758 in 1939 (January-June). Wolfram was a Chinese Government monopoly, and was handled by the National Resources Commission. The first calls on supplies were for the Chinese-Russian and Chinese-German barter deals; the balance was supposed to be handed over to the British Peking Syndicate, who were the official selling agents for the three main producing provinces, Kwangtung, Kiangsi, and Hunan. The Japanese blockade made it necessary for the bulk of the Chinese wolfram exports to go through Haiphong in French Indo-China; they passed thence through Hong Kong. The Ministry was told by M. P. W. Kuo, of the Chinese Government Trade Commission, that the trade with Germany had ceased, but that that with the Russians continued. Owing to smuggling by which at least 100 tons, and possibly 200 tons, a month were reaching Hong Kong, the Peking Syndicate's agreement did not work so exclusively as it appeared to do on paper, and the Chungking Government in December 1939 sought the co-operation of the Government of Hong Kong in suppressing the illicit trade. At the beginning of the war Germany was understood to have stocks of 14,000 tons of ore, equivalent to about one year's estimated war requirements; as roughly sixty per cent. of her total wolfram imports had come from China in the three years before the war, it appeared that there was an excellent opportunity here of embarrassing her, and it was known that German agents were working in China to secure fresh supplies. It was possible that some supplies of the ore might reach Germany by the overland route through Lanchow, but it seemed very unlikely that the Russian lorries would be willing or able to carry much. The main source of supplies for Germany would therefore have to be by sea to Vladivostok, and thence by the Trans-Siberian railway.

The political complications of the question were considerable and illustrated the British Government's difficulty in trying to carry on anti-German and anti-Japanese policies simultaneously. It was desired to stop supplies reaching Russia and Germany: but it was also desired that China should secure Russian munitions and support against Japan. Any measures which cut down Russia's supplies of wolfram to a harmless minimum would presumably result in a corresponding reduction of Chinese military supplies, and it was therefore necessary to find some solution whereby China's imperative war needs would be met.

The matter was brought to a head by the decision of the French Government in mid-December to keep for its own use Chinese stocks of 4,000 tons of wolfram and 3,000 tons of antimony stored in French Indo-China and awaiting shipment to the United States, Russia,

Britain, and France. The Chinese Government at once objected to this decision, and on 18th December asked the British Government to use its good offices with France to secure the release of the goods and the restoration of facilities for transportation through French Indo-China. The French decision followed the League resolution of 14th December expelling Russia from membership; China had abstained from voting. The decision was a political one, and the British Government did not feel able to oppose the French; in the Ministry, however, there were grave doubts as to whether this was the right moment to throw a spanner into the machine of Sino-Soviet trade. On 28th December 1939 two telegrams to the British ambassador in China, Sir Archibald Clark Kerr, explained that the British Government's idea was to take any of the commodities hitherto supplied to China and to let China have in return, on a barter basis, the wireless and telephone material that she required. The Chinese Government was quite unenthusiastic at this offer, and showed great alarm at the prospect of any interruption in Sino-Soviet trade.

Negotiations over the wolfram purchases dragged on throughout the first half of 1940, mainly in French hands. The difficulties on the Allied side were considerable. It was estimated that a pre-emptive purchase of 8,000 or 9,000 tons of wolfram would severely curtail Chinese supplies to Germany. But the Allied requirements for 1940 were already covered by completed or anticipated purchases, and there was no doubt that the Chinese would demand a high price (based on recent United States purchases) which would both stimulate production and upset the purchases already made by the Ministry of Supply. Both the Chinese and Siamese productions could be rapidly and substantially expanded, and, owing to the facilities for smuggling, anything like complete control was impracticable. It was, in any case, highly doubtful whether China would be willing to restrict her barter transactions with Russia and Germany unless she could obtain the essential supplies for her defence against Japan from another source; but the Allies could not spare the armaments and armament materials which China needed.

The first phase of discussions had produced a deadlock by 25th January 1940; the Chinese were not prepared to agree to the French proposals for the distribution of the stocks in Indo-China; they refused to discuss the future, and demanded that the French should purchase the Indo-China stock at \$16 a unit. On the 24th, M. T. V. Soong told the French ambassador that if the French did not agree to the Chinese proposals wolfram would be transported to Russia by air or land routes through Mongolia. During February the negotiations appeared to be progressing more favourably; proposals and counterproposals were made by both sides, and there seemed little doubt that the Allies could secure control of the whole Chinese

production on terms which would have been easy enough to meet in peace-time. On 8th February the Chinese offered to supply 5,000 tons of wolfram for ten years in return for an advance of 2,000 million francs (about £111·3 millions).

At the end of January the Chinese Government offered to allot 2,500 tons of wolfram to Great Britain against delivery of special steel of a value of roughly £430,000. But the French wished the whole negotiations to be left in their hands, and M.Kuo was told that the proposal to barter wolfram for British steel was impracticable. Little progress was made during March. The Chinese Minister of Economics told the British ambassador that his government was willing to hand over to the British and French the whole wolfram output for ten years against payments in the form of cash advances, provided that arrangements were made for the shipment to Russia of 400 tons monthly. The minister estimated the total Chinese production at between 12,000 and 15,000 tons. On 16th April the Chinese were informed through the Peking Syndicate that the British Government could not accept this offer.

The case of the s.s. *Selenga* had in the meantime produced further complications. This Soviet vessel, bound from Manila to Vladivostok, was intercepted by a British warship about 11th January and taken to Hong Kong for contraband inspection. The cargo included 1,190 tons of wolfram ore, 596 tons of antimony ore, 98 tons of tin, and 496 tons of Brazilian coffee. The Soviet ambassador gave a categorical assurance that the cargo was for consumption in Russia, and on 30th January the British cabinet decided that the ship would have to be released, but that the opportunity should be taken to get from the Chinese Government details of their barter arrangements with Russia. The French embassy in Chungking continued to urge that the *Selenga's* wolfram should not be released and maintained that as Russia had taken no wolfram from China before 1939 this cargo was really destined for Germany. The cabinet decided on 14th March that the *Selenga* should now be released, notwithstanding that it had not been possible to come to an arrangement with the Chinese to regulate exports to Russia; but this decision was made to depend on the agreement of the French, who were as opposed as ever to any such course. Accordingly it was arranged on 26th March that the ship should be transferred to French custody. It was taken by a French crew to Saigon; the wolfram was unloaded, and was still there as late as 23rd August.

The later stages of the wolfram negotiations were conducted on the French side by M. Audinet, a dealer in armaments, who was sent to Chungking by the French Government in March, in spite of the opposition of the French ambassador and the Chinese Government. He did succeed in reaching a tentative agreement with the Chinese

by the beginning of May, and the French Government was willing to accept this as at least a preliminary basis for negotiation. These terms included the purchase by France of the whole of China's wolfram output for forty-two months, the purchase of Chinese stocks of wolfram in French Indo-China at about £300 a ton, and a side deal in guns. The £300 figure was excessively high; the Ministry of Supply was buying wolfram at this time from non-Chinese sources for £162 a ton. The Ministry felt that this scheme could not possibly be accepted, but at the end of May discussed a counter-offer whereby all existing stocks, and all future supplies for eighteen months, should be purchased at £162 a ton, and on the understanding that the total output must be limited on a production basis of 15,000 tons per annum for the eighteen months' period. On 29th May the United States Treasury agreed tentatively to join in a co-operative purchase of Chinese wolfram, which might take the form either of a single purchase of from 5,000 to 7,000 tons in 1940, or a double purchase of half this quantity in 1940 and half in 1941.

But it was already too late for these plans to be put into operation. While they were under discussion Audinet had proceeded on his own lines in Chungking, and the Ministry heard on 14th June that a definite agreement had been reached for the sale of the stocks in Indo-China to the French. A few days later the French gave up the fight against Germany, and this altered the whole position as far as British supplies were concerned. As there was no longer any need to supply France from British Empire sources, it appeared that the British would be self-sufficient in wolfram, and the idea of British participation in pre-emptive purchases was dropped.

(v)

The Siberian Leak: Discussions with Japan

The Cabinet, as we have seen, decided on 14th March that a fresh attempt must be made to arrive at an agreement with Japan for the limitation of supplies to Russia and Germany. The urgency of a decision was emphasized by the growing evidence of an extensive leak in the blockade through Vladivostok and Dairen. The Ministry's estimate of Soviet imports of certain industrial raw materials between September 1939 and January 1940 is shown in the following figures (in tons). Shipments under the United Kingdom-U.S.S.R. barter agreement are included in this table, although they were not all necessarily made through Far Eastern ports.

	From U.K. Barter	From U.S.A.	From N.E.I. and Philippines (including transshipment from Kobe)	Total (five months)	Average imports into U.S.S.R. based on 1937-38 trade
Copper and brass (i)		42,000		42,000	30,000
Rubber	8,900	13,000	10,000 (Oct.-Dec.)	32,000	12,500
Tungsten			1,200	1,200	not known
Tin (ii)	600	2,000	3,000	5,600	5,000
Lead		7,000		7,000	16,000
Molybdenum		9,000,000 lb.			2,500,000 lb.

(i) This copper was known to have left the United States for transshipment to Russia via several indirect routes. At this time (5th February) it had not all reached its destination.

(ii) The U.S.S.R. were reported to be importing tin from the province of Yunnan in China.

It was difficult to arrive at very exact estimates. Normal seaborne trade passing in and out of Siberia consisted almost entirely of imports for consumption in Siberia; two-thirds by weight of pre-war imports had consisted of the produce of European Russia shipped to Vladivostok from Black Sea ports, and the Soviet authorities had even found it more economical to import petroleum from America than to ship it to Vladivostok from Batoum. As the capacity of the Trans-Siberian railway was limited and traffic in goods very expensive it was assumed that there was little likelihood of any attempt by the Germans to import large bulk cargoes, such as soya beans, by this route, and it was understood that they had in fact abandoned hope of doing so. It was, however, worth their while to use it for materials of high value to the war effort and of relatively small bulk. Information reaching the Ministry from a very secret and reliable source estimated the potential capacity of the South Manchurian railway available for traffic to Germany at 1,000 tons a day, and it was believed that some 15,000 tons of goods a week might be sent by the Trans-Siberian. So there would be no great difficulty in carrying quantities of copper, rubber, lead, tin, molybdenum, etc., of vital importance to Germany. These were *prima facie* grounds for suspicion that German deficiency commodities were being forwarded to Germany via the Siberian route; the Japanese shipments via Kobe to Dairen were the most suspicious of all. Recently the Russians had been in such a hurry to get copper out of America that they were shipping it to Manzanillo, a Mexican port, to await transshipment to Vladivostok.

The Russo-German trade agreement of 11th February 1940 was evidence that more precise commercial exchanges were being planned. It was known that Germany had formed by this stage an extensive organization in the Far East for furthering the Trans-Siberian trade which embraced a number of Japanese firms as well

as branches of German concerns. The great Japanese firms of Mitsui and Mitsubishi were involved, and fifteen German agencies had been identified as participating in the traffic. Exports of rubber and tin from Kobe to Vladivostok in November 1939 were at least 2,745 tons and 1,500 tons respectively; a further 720 tons of rubber which arrived in Kobe in December had been brought by the German consul for dispatch to Germany. Rubber exports for October, November, and December from the Netherlands East Indies to Japan were 9,039 tons, to Vladivostok 2,230 tons, and to Dairen 4,478 tons, although the average Japanese requirements of rubber were not more than 1,000 tons a month, and those of Dairen and Manchukuo practically nothing. There was also evidence of arrangements, either completed or under negotiation, for the sending of American or Chinese cotton, cobalt, whale oil, wool (from Argentina), and possibly other produce, through Siberia to Germany.

On 14th March the War Cabinet discussed a long memorandum on Soviet-German trade, and Mr. Cross said that the principal conclusion of the memorandum was that, if steps were not now taken, the effect of the blockade on Germany might be largely nullified by 1941 as a result of the 'present Russo-German plan to improve transport facilities across Russia, especially from Vladivostok and Dairen'. After a full discussion the Cabinet decided,

- (a) that use should be made of our control of supplies to Japan of raw materials from the Dominions, India, Burma, and the Colonies, for the purpose of obtaining the agreement of the Japanese Government to limit supplies to Russia and Germany;
- (b) that authority should be given for the interception in Pacific waters of ships of all nations thought to be carrying cargo of suspect destinations.

It was also decided at this point that the Soviet ship *Selenga* should be released, provided that this did not cause difficulties with the French Government. The Supreme War Council agreed on 28th March that the stricter exercise of Allied contraband control as regards goods going to the U.S.S.R. was desirable.

Interdepartmental discussions showed that the difficulties which had led to the discontinuance of the earlier negotiations in December had in no sense diminished, and it was decided to start by asking Sir Robert Craigie and Lord Lothian for advice as to the best means of achieving the object in view. A first step towards tightening the control was a visit by Sir Edward Crowe, who had had many years of commercial experience in Tokyo, to the London managers of the important Japanese firms of Mitsui and Mitsubishi, who controlled most of the Japanese foreign trade and were known to be widely interested in trade with Germany. He told them that the British

Government was determined to stop the transit of goods to Germany and that firms with interests in the Commonwealth who continued to deal with Britain's enemies must not be surprised if as a result their relations with Empire markets were adversely affected. Neither of the managers expressed surprise and it was hoped that this warning would convince them that if they wished to continue trading on a large scale with the Empire they would have to produce satisfactory guarantees of their good faith. It was not considered expedient to place these or other great Japanese combines on the Statutory List. Sir Robert Craigie thought that the proposed scheme for an agreement was, as a whole, excellent, but he warned the government that any formal agreement of this scope would, in view of the opposition of pro-German elements, be a matter of some difficulty, and suggested an immediate agreement with the Japanese on rubber and tin (for which they were ready).

Instructions had in the meantime been sent by the Admiralty to the Commander-in-Chief, China, that ships of all nationalities whose cargoes were strongly suspected might be intercepted south of latitude $21^{\circ}21'N.$, but that north of that line Japanese ships should be intercepted only after reference home. A few days later it was decided that in order not to prejudice the forthcoming negotiations interception of Japanese vessels should be limited to an occasional ship, at least fifty miles from the nearest Japanese territory. Suspect United States and other ships would continue to be intercepted. But on 22nd April Sir Robert Craigie deprecated the interception of any Japanese ships on the eve of the new negotiations.

Lord Lothian was plainly uneasy as to the effect of the negotiations on United States opinion, and on 17th April he telegraphed that he and the French ambassador were entirely agreed that Mr. Hull should be consulted before negotiations with Japan were opened. It was, he said, imperative that if negotiations were commenced with Japan the State Department should use its immense influence to calm down public suspicion and resentment, instead of giving it full scope or even stimulating it. The British Government did not make any difficulties over the point, and on 27th April Lord Lothian was given a careful statement, which it was hoped would satisfy the State Department, that the lines along which it was proposed to conduct the negotiations did not conflict with United States policy or interests. On 4th May he was able to reply that the United States Government had raised no specific objection to the negotiations, but hoped that the agreement would not be binding for a long period.

To understand the emphasis laid by Lord Lothian on full agreement with the United States at this point we must remember that the German invasion of Scandinavia on 9th April had already produced a noticeable change in the attitude of that country towards the war;

there was a widespread awareness that somehow the war had come nearer, although American participation seemed more likely to result from German or Japanese action affecting positive American interests than from a decision to take the initiative in intervening in Europe. But it was also possible that the very equivocal character of American relations with Japan might lead to misunderstandings with Britain which would again tilt the balance of opinion in favour of isolationism. Up to this point the United States Government, by placing a moral embargo on a limited range of exports, had given some warning to Japan and had satisfied American opinion, without drastically reducing the main flow of United States exports. The result was that, for the moment at least, government and public were having the best of both worlds, and yet were likely to criticize an Allied agreement with Japan to limit supplies to agreed figures as 'appeasement'. In explaining the Allied policy to the State Department, Lord Lothian emphasized strongly the fact that the open door at Vladivostok was threatening to stultify the whole policy of the blockade. The State Department officials wanted to know whether the proposed agreement would curtail or limit quantitatively United States exports to Japan, and were assured that, so far as could be seen, any limitation would be on Empire supplies. The British Government would not supply Japan with goods and materials listed in the United States, but otherwise there seemed no obvious way in which Britain could bring its trade relations with Japan in line with those of the United States.

The Government's plans were also viewed with uneasiness by the Dominions. The Australian Government pointed out on 16th April that the major stream of traffic via the Trans-Siberian railway appeared to come from American sources; the possible gain from direct interception was not commensurate with the risk of trouble with Japan which it involved, and it seemed better that the plan for a negotiated agreement should first be put into effect. The New Zealand Government also doubted whether the possible advantages of interception would outweigh the disadvantages, and it deprecated any attempt to make a bargain with Japan. In the case of Canada, the main problem was the export of nickel. Nickel exports to Japan from Canada had, as we have seen, been drastically reduced, no export having been made since February 1940, when the last shipment under the 1939 contracts had been made. No nickel had been exported to Russia since May 1939. It has been shown elsewhere (see pp. 367-70) that the United States Government had been concerned since December lest the moral embargo on the export of molybdenum should be nullified by the export to Japan of alternative metals, such as nickel. The British Government agreed that it would be difficult to fix any ration except on an arbitrary basis; it was anticipated that

Japan would press for at least 200 tons a month, which would represent about half Japan's normal requirements, and would not be replacing molybdenum by nickel. If, however, the United States and Canadian Governments were able to maintain a complete embargo on nickel, the British Government was prepared to make no objection. The three Dominions agreed, after further explanations of the British Government's attitude, to co-operate as far as possible.

After all these preparations the discussions with Japan were able to commence in London in May. The joint Anglo-French-Canadian control of nickel was perhaps the Allies' strongest weapon, but they had further bargaining levers in the control of Empire raw materials and in the eight shiploads of German exports for which the Japanese were demanding exemption. The threat of contraband control and of the interception of Japanese ships in the Pacific was, on the other hand, hardly one which could be given any prominence.

The essential purpose of an agreement from the Allied point of view was to secure from the Japanese definite and satisfactory undertakings that Japan would not become an entrepôt for trade with Germany and that Japanese ships would not carry goods destined for Germany to Vladivostok and Dairen. Negotiations for contraband control would have to be co-ordinated with the proposed payments agreement, for while the Ministry desired a restriction of exports from the Commonwealth, an increase of exports was desirable from the Treasury's point of view. It was agreed that no new restrictions on Commonwealth products should be imposed but that existing restrictions should be maintained and tightened up wherever possible, particularly in the case of jute bags, jute, rubber, and tin.

M. Shigemitsu, the Japanese ambassador, saw Mr. R. A. Butler at the Foreign Office on 7th May, and was shown an *aide mémoire* on the British proposals which led him to say, 'you have certainly done your best for me and I will now press Tokyo again to send you the general information which you desire'. It was agreed that discussions on the political plane should be conducted with the Foreign Office and those on trade questions with the Ministry of Economic Warfare. The *aide mémoire* set out the general basis for an understanding between the two governments in the following terms:

- '(a) the Japanese Government would take measures to prevent commodities to be specified by His Majesty's Government as being those most needed by Germany for war purposes, from being forwarded on Japanese ships or by Japanese nationals or from territory under Japanese control with a view to their reaching Germany either directly or through Soviet trade organizations.
- '(b) His Majesty's Government would in return be prepared to facilitate the acquisition by Japan of such commodities as are

available from British sources up to agreed quantities shown to be necessary for normal Japanese domestic requirements.'

On 10th May the ambassador saw Mr. Cross, and said that an agreement between the two countries seemed to be desirable from the political point of view; but he also argued that as a neutral country Japan was entitled to trade with both belligerents. He was, however, anxious to see an improvement in trade between Japan and the British Commonwealth. These opening conversations foreshadowed clearly enough the difficulties that were soon to wreck the negotiations: the Japanese delegates in London, whatever their own views may have been, had no authority to conclude an agreement in a form sufficiently comprehensive to meet the essential British requirements.

The detailed discussions were opened at the Ministry on 14th May. The counsellor of the Japanese embassy, M. Okamoto, said that while preserving a policy of strict neutrality, his government was prepared to consider a practical solution covering Anglo-Japanese trade relations as a whole, provided that the British Government would modify the existing restrictions on both the export and import trades between the two empires. He hinted, as his ambassador had done, at the necessity for a modification of the whole attitude of the British Government towards the Sino-Japanese war. He then presented a list of goods which his government wished to export to, and import from, the British Empire. List 'A', covering commodities which Japan wished to sell to the United Kingdom, included tinned fish, tinned and bottled fruit, soya beans and bean oil, fish and vegetable oils, wood, silk and woollen yarns, and iron and steel manufactures, as well as a number of other items. List 'B' gave the following details of Japanese requirements from the Empire:

Nickel (Canada)	Manganese ore (India and
Lead (Canada, Burma,	Malay)
Australia)	Tungsten ore (Hong Kong)
Tin (Straits Settlements)	Asbestos (Canada)
Mica (India)	Zinc ore (Burma, Australia)
Raw cotton (India, Burma,	Jute (including jute bags)
Egypt, British East Africa)	(India)
Phosphorite (Ocean Island,	Raw rubber
Christmas Island)	(Straits Settlements)
Industrial salt (Egypt, Aden,	Pig iron (India)
Sudan)	Zinc (Australia)
Iron ore (Straits Settlements)	Copper ore (Canada)
Graphite (Ceylon)	Lead ore (Australia)
Bauxite (Malay, India)	Nickel sulphate (U.K., Canada)
Raw material for potassium	Pulp for artificial silk (Canada)
chloride (Palestine)	

M. Okamoto also asked for details of the goods which the British Government wished to specify as contraband and was given a preliminary list which included,

Petroleum products: Lubricating oils and greases.

Ferro-alloys: Molybdenum, cobalt, wolfram, chrome, nickel.

Non-ferrous metals: Tin, copper, lead.

Textile materials: Cotton, wool, silk, jute, hemp.

South Sea products: Rubber, copra, kapok, coffee.

Edible oils: Soya beans, soya bean oil, whale oil, fish oil.

He expressed surprise at its length and was informed that compared with the lists in some of the war-trade agreements this was abbreviated, but that some distinction might be made in the treatment of indigenous produce like silk and soya beans as compared with imported commodities. Any trade in the latter with Germany must be prohibited.

At an interdepartmental meeting on 23rd May it was agreed that the negotiations should be on the broadened basis which the Japanese had suggested, namely, that of trade between the British and Japanese Empires as a whole. The Japanese lists were then considered, and it was decided that as regards list 'A' it might be possible to buy tinned salmon, whale oil, a little fish meal, eggs, and perhaps peas. A considerable quantity of condensed milk, not on the list, would be welcome and purchases of timber and plywood might be increased if shipping were available. The commodities which it would probably not be possible to supply to Japan were zinc, zinc ore, and copper (except for a small export from Canada); nickel, nickel sulphate, nux vomica, and cresol would be difficult; tungsten ore (wolfram) was not really a product of Hong Kong and all the high-class mica available would be required for Allied purposes, though some low-class mica might be supplied. The position of pig iron was doubtful. Raw rubber and tin depended to some extent on how much the Netherlands East Indies were prepared to send to Japan.

In a second conversation at the Ministry on 23rd May M. Okamoto made it clear that while his government might be prepared to prevent the re-export to Germany of imports from the British Empire, it was not likely to do so with regard to imports from other sources. The discussions were continued on 3rd June when a further *aide mémoire* giving details of the British requirements was handed to M. Okamoto. He was told that it might be possible to go a long way towards meeting the Japanese requests, although the Allied supply position would not allow commitments beyond a few months at a time. There could be no question of a governmental undertaking to supply Japan. As regards nickel, tungsten, zinc, lead, cobalt, scrap and pig iron, and copper, any supply would be difficult owing to armament requirements, although ores might be available. Commodities such as jute

and bauxite would have to be discussed in the light of Japan's exports of soya beans and aluminium. In the case of rubber and tin, information would be required regarding Japan's supplies from other sources, for it was understood that the Japanese Government had also enquired of the French and Netherlands Governments regarding raw materials.

It was on this point that the negotiations broke down. M. Okamoto said that his government took a grave view of the Ministry's attitude, and considered that any claim to control the re-export of Netherlands East Indian produce would be a breach of the recent British undertaking (following the Netherlands collapse in Europe) to respect the *status quo* in the Netherlands Empire. It was explained to him that the Ministry wanted a guarantee against re-export to Germany of all Japanese overseas imports from whatever source, including, for instance, South America and the United States; he insisted that his government could not accept this point of view. He repeated this on 13th June, and reiterated it more sharply in a note of 17th June. Japanese trade discussions with the Netherlands East Indies were a matter for Japan alone. The Japanese Government was, however, still prepared to continue the discussions on Japanese imports from the British Empire on the understanding that it would take its own measures 'to ensure that some important war commodities will not find their way into the hands of Germany'.

Had there been at any stage a real chance of agreement on the lines desired by the United Kingdom? Probably not, but any slight chance was destroyed by the tremendous blows to Allied fortune given by the great German victories in Europe. The conversations were not continued after 28th June. The Tientsin agreement, signed on 19th June 1940, had been regarded as a reasonably satisfactory settlement by both powers before the collapse of France, when the negotiations had been virtually concluded; now it was attacked in Japan as too favourable to Britain in the new situation. Cabinet changes in Tokyo in June were a reflection of nationalist excitement at the glittering prospects now opening up for Japan; unpleasant problems like the Tokyo arrests and the Burma Road controversy made it impossible for either government to sign an agreement which did not represent a clear-cut victory over the other.

So in the Pacific, as in the Atlantic, the economic war was changing its character by the end of June. The German victories produced no mood of defeatism in the Ministry of Economic Warfare; the mood was far rather one of fresh confidence and release, with the opportunity of total economic war opened up by the new reality of total danger. To these new developments in the blockade we must now turn.

PART II

Control at Source
July 1940—June 1941

CHAPTER XII
GENERAL SURVEY
July 1940—June 1941

By the end of June 1940, when the noise of battle had been replaced for the moment by the thunder of the loudspeaker—when German psychological weapons were dealing supposedly final blows on England's disintegrating moral fibre—British officials could be forgiven some doubts as to the sufficiency of their established plans. The blockade had certainly not yet won the war for the Allies. But the conclusion was not, in spite of some parliamentary criticism, that the new German position made the continuance of the economic blockade pointless. There was some inclination to look afresh for miracles in the economic field of warfare, but the main effect of the German victories, in this as in other fields of official policy, was to provide a mental shake-up and a disposition to welcome new and more drastic plans.

So the second phase of the war, which for economic-warfare policy may be said to run for about twelve months after the fall of France, was due not merely to the greatly changed economic circumstances of the enemy, but also to some relaxing of inhibitions which had hitherto hampered the employment of the economic weapons. The point is worth remembering, for in fact it would be misleading to assume that the new developments in policy after June 1940 were merely hasty adjustments to the circumstances of defeat. The first winter of the war had been a period largely of experiment, and already before the German offensive in April 1940 continuous discussion in the Ministry had defined the main lines of advance. We must not, in other words, exaggerate the extent and abruptness of the transition in economic-warfare policy at the beginning (or indeed at the end) of this second period.

The main changes affecting the blockade are obvious enough. The events of April to June 1940 had radically modified the conditions under which economic warfare had to be waged. The occupation by Germany of the greater part of the coastline of western and northern Europe, the entry of Italy into the war, and the disappearance of northern neutrality (except in the cases of Sweden and Finland) and of France as an ally, meant that the technique of the First World War, whereby contraband control meant control of supply routes

through 'adjacent neutral' territory, had now to be largely abandoned in favour of a direct blockade of practically the whole Continent.

Accordingly instructions were issued immediately after the invasion of Norway that all neutral ships in all United Kingdom ports and bases were, for the time being, to be prevented from sailing for any Scandinavian, Baltic, or north Russian destination. Patrols in the Channel and in the north were to bring in all ships ignoring navicerts or 'missing Kirkwall' clearances. Swedish, Finnish, Latvian, and Estonian ships bound for Scandinavian or Baltic ports were to be detained all over the world. It was also announced that no further export licences would be granted for Scandinavian or Baltic states and that consignments for which export licences had been granted would not be permitted to proceed further. The issue of fresh navicerts was to be suspended, but those already given would remain in force, although they would not ensure a passage through the controls. The British consul at Reykjavik was instructed to inform the Anglo-Icelandic Joint Commission that no shipment was to be made to any Scandinavian or Baltic destination. The route to Petsamo remained open, but it was not until January 1941 that a very limited trade was allowed again through Gothenburg.

The process was completed with the closing of the Mediterranean after Italy's declaration of war on 10th June 1940. Vessels entering or leaving the western Mediterranean were detained at Gibraltar. Vessels leaving the Mediterranean at Port Said were detained there. Vessels entering the Red Sea from the south were stopped at Aden. Neutral ships at United Kingdom, Colonial, or Dominion ports with cargoes for Mediterranean or Iberian ports were detained. Navicerts were cancelled and applications refused for all European neutrals, other than Iceland, Sweden, and the Baltic states. Export licences from British Commonwealth countries were refused except for these countries and Turkey. Consignments of German deficiency goods for neutrals were detained. Relaxations were soon made. Vessels were allowed to proceed to Portugal and Atlantic Spain, and even to pass eastwards through the Straits of Gibraltar for Spanish ports. The issue of navicerts and export licences was resumed for the Iberian Peninsula, and for Turkey on condition that the goods were not routed via Gibraltar (i.e. they had to travel via the Cape).

But even before the defeat of France a complete naval blockade of German Europe was impossible, and the fact that the Turkish Government was not prepared to close the passage from the Black Sea reduced still further the pressure that could be exerted on the enemy by the complete blocking of the three exits from the Mediterranean. The result, as we have already briefly noted in Chapter I, was that a

great extension of control at source—the transition that the Ministry liked to described as one ‘from control on the seas to control on the quays’—became imperative. The naval blockade—the actual interception of blockade runners by ships of the Royal Navy—had, in other words, to be supplemented and, as far as possible, replaced by export control in all overseas territories from which these supplies could reach Europe.

The transition to the new system was not completed in this period. It was helped by the growing co-operation of the American republics, but they were still neutral, and while Britain remained isolated as a belligerent the system could not be fully developed. The situation in the east remained virtually unchanged; the Russian leak in the blockade was never closed until the Germans attacked in June 1941. The extent of this ‘leak’ is shown by the Russian official figures in Appendix III. In the west a new leak appeared through Morocco and Vichy France, and although the principle of forcible rationing was now applied to the smaller European neutrals (Sweden, Switzerland, Greece, Turkey, Spain, and Portugal), and although various forms of economic aid were employed as a positive inducement to prevent exports to the Axis, the leaks continued. So the distinctive new plans of the Ministry, if well-conceived, were imperfectly executed, and it was only when, in the summer of 1941, the Soviet Union found itself at war and the United States by its freezing agreements against Japan entered vigorously into the economic struggle, that it really became possible to plan economic warfare against Germany, Italy, and Japan on a global basis. The summer of 1941 also saw the beginning of new phases of development inside the Ministry, particularly on the Intelligence side.

One of the first questions that the Ministry had to ask itself after the fall of France was whether Germany’s economic gains were as extensive as they appeared. Various estimates were made by the Ministry between June and September 1940 as to the effect of the new situation on Germany’s supply position. For economic-warfare purposes German Europe could now be regarded as the whole of continental Europe, including Scandinavia and the Balkans, but excluding Russia, the Russian-dominated Baltic States, and the Iberian Peninsula. It was clear that both the booty she had seized, and the increased mineral and industrial wealth which she now commanded, would strengthen Germany’s position for the time being, although the control of the vast area which had now been brought into her *Lebensraum* was expected to put new strains on her war-making capacity at a later stage.

The situation appeared particularly favourable to Germany in coal and steel production. Before the French collapse, indeed, the Ministry believed that German steel production had been running (since

April) at about four-fifths of the peace-time level, and that this rate of output could be maintained only as long as the port of Luleå remained open to allow exports of Swedish ore. But now Germany had control of the Luxembourg and Lorraine deposits, and since she would also have obtained large quantities of scrap metal from the occupied territories, it appeared that she should have no difficulty in working her steel industry at something near capacity. There was a somewhat similar position in the case of coal. Germany had introduced strict rationing of coal at the beginning of the war, mainly because of the serious drop in output in the Saar and Aachen areas. Before June 1940 she had already demonstrated her ability to keep Italy supplied, and no serious European shortage was anticipated provided she made possible the continued operation of mines in France and Belgium, and continued to relieve the labour shortage in her own mines. Supplies of zinc were adequate; Germany had a fairly large output of lead, and her deficiencies could probably be made up if she secured the whole Yugoslav output; there was no shortage of the raw materials required for aluminium production, although supplies were believed to be a little tight owing to the extensive substitution of aluminium for other non-ferrous metals. Germany's indigenous output of copper was small, but she had built up large stocks and had added to them from supplies in occupied territories. There were already reports of definite shortages in the alloy metals—nickel, chrome, cobalt, tungsten, and molybdenum—in which the Continent was weak in natural resources, but these were not believed to be on a serious scale as yet. Tin was seriously short, but the position had been relieved by the capture of stocks.

The German stock position with regard to other commodities showed a similar improvement as the fruits of victory, although there were varying degrees of optimism as to the date at which this booty and the existing stocks would be exhausted. The Lloyd Committee estimated the minimum German and Italian consumption of petroleum in war at 8·5 million tons, although this did not seem to allow a great deal of activity for the armed forces. Accepting this figure and adding consumption in German-dominated territories at only twenty-five per cent. of the 1938 level, an M.E.W. estimate in September 1940 placed Germany's European requirements at a minimum of 11,700,000 tons. It was believed that supplies would total 9·7 million tons if Germany could obtain the whole of the Rumanian export surplus, or perhaps a million less if she were restricted to that part of the Rumanian output which she could remove by the Danube or by rail. Estimated European stocks at 1st July 1940 were 7,600,000 tons, of which at least 2·5 million would be required to maintain the distribution system. The effective French stock figure was believed to be about one million tons. On the assumption that Germany could

not obtain supplies from Rumania via the Mediterranean, existing stocks were expected to bridge the gap between supplies and consumption for rather over a year from 1st July 1940. Rubber was also expected to provide difficulties; if Germany could secure the whole of the French stocks, it was expected that she might, with her own production of reclaim and synthetic, be able to last a year from mid-1940, but failing this she would be in serious difficulties by the end of 1940. By then it was expected that the two synthetic rubber plants (*Buna-werke G.m.b.H.* at Schkopau and *Chemische Werke Hüls*) would be producing sufficient for about half the estimated European production of reclaim and synthetic rubber. But it was broadly estimated that in the absence of imports of natural rubber German Europe would have to rely on production which would supply only half Germany's and Italy's pre-war needs, and only one-quarter of the pre-war consumption of the rest of Europe. Serious difficulties were also anticipated with regard to textiles. Supplies of cotton and wool would depend almost entirely on stocks; total stocks of cotton were estimated at about 280,000 tons (pre-war consumption about 1,200,000 tons); and of wool about 203,000 tons (pre-war consumption about 425,000 tons). The German war economy, as far as textiles were concerned, had been based mainly on rayon and staple fibre, which it had been intended should be substituted for wool and cotton; but it seemed certain that in spite of the enormous and rapid increase in the German artificial-fibre capacity, there would be a substantial deficiency even inside Germany. The situation in occupied Europe was likely to be very much worse.

In the absence of exact information as to stocks and consumption, all such estimates had to be based on a large element of guesswork; the Ministry, however, certainly accepted with some confidence the view that during the second half of 1941 the raw materials blockade might be expected to have serious effects upon the German and Italian productive systems. This view was not based only on an estimate of supplies and productive capacity, but also on certain other factors which had become important for Germany with the fall of France. German economic and administrative methods had now to be applied in areas where little or no preparation had been made for their operation; they had also to be applied to occupied and hostile populations. The strain on transport would be greater; after the exhaustion of existing stocks, deficiencies in oil, textiles, rubber, and metals (other than iron ore and aluminium) would become increasingly serious. If the Nazis attempted to maintain the economic structure of the occupied countries, they would do so at the expense of their own supplies of deficiency commodities; if they neglected or dismantled it, they would abandon their hope of drawing advantage from the occupation and would involve themselves in un-

welcome new problems of famine, policing, and the like. So it was argued.

Later in the war the Ministry's estimates were regarded as wildly optimistic, and chiefly valuable as a stimulus to the morale of the fighting Services.¹ A word or two may be said in defence of the Ministry on this point. The summary of the Ministry's views in the three preceding paragraphs is derived from a mass of estimates and memoranda in the Ministry's files, and these clearly recognized the strong, as well as the weak, features of the German position. They were not, in fact, particularly hopeful. The Chiefs of Staff, however, seem to have derived their assumptions about Germany's resources mainly from the Ministry's contribution to the papers on 'A Certain Eventuality', which were presented to the War Cabinet on and after 25th May 1940 (reference has already been made to these in Chapter I). At this date it was not even possible to say what Germany's loot might be. All that the Ministry's representative seems really to have advanced on this occasion in the way of a general estimate is that if certain conditions were fulfilled the Germans would after a year be in approximately the same economic difficulties that they were believed to have been in in the spring of 1940. There was no suggestion that Germany would collapse, and in any case the postulated conditions were not carried out. The line of argument had been that, in spite of a great increase in resources and, in some cases, of stocks, Germany would be faced with new difficulties of administration and distribution, and that her sources of overseas supply would be reduced, in the main, to two, namely Russia and the French Empire. But to take advantage of this it would be necessary for the British (1) to close these two supply routes; (2) to conduct an air offensive which would destroy the Rumanian oil wells and Germany's synthetic oil plants, disorganize transport, and otherwise aggravate internal conditions; (3) to rely on, or organize, resistance by the occupied populations which would either seriously reduce supplies or make heavy demands on German resources for garrison duties and communications; (4) to prevent the use of waterways round Europe and of the Danube for German supply; (5) and, of course, to ensure by military action a sufficiently rapid wastage of German production. But the fighting Services themselves could not make their contribution; the air offensive was relatively ineffective; the Navy, prevented by military and even political considerations from exercising full freedom of operation, could not close the Pacific and Gibraltar leaks; there was no appreciable wastage of German resources in battle. So

¹ 'Germany's economy was immeasurably strengthened by her conquests and the Ministry of Economic Warfare's forecasts were sheer illusion. But . . . one or two illusions may possibly have done less harm than an overdose of the harsh truth would have done.' W. K. Hancock and M. M. Gowing, *British War Economy*, p. 100.

the Ministry's estimate, wild or otherwise, was not, in fact, put to the test.¹

We now know that the real source of error in the Ministry's calculations was not so much an under-estimate of German material resources as an over-estimation of Germany's seriousness of purpose. Expectations of the exhaustion of stocks by certain dates were, not unnaturally, based on the assumption that the stocks were being used up for war production at the maximum rate that German industry would allow. But, in fact, the tendency to be satisfied with, or to ease off, the pre-war rate of production, on the ground that this was sufficient to provide for the short *Blitzkrieg* campaigns of the new *Wehrmacht*, was strengthened by the quick, spectacular victories in the summer of 1940. It is now known that for several classes of armaments including tanks, self-propelled guns, and aircraft, British production was already greater than German in 1940, and continued to be so in 1941 and 1942. We shall see in the second volume of this work that in 1942 the German leaders at last woke up to the fact that they had seriously under-estimated the demand for armaments, but the broad fact remains that during the critical winter of 1940-41, when the attack on Russia was already decided on, German preparations were still for a short war, and Hitler's astonishing order in September 1941 for a substantial reduction of armament production shows that he believed that the tremendous German victories against Russia of the previous three months had once more won the trick. Germany was still not preparing herself in 1940 and 1941 for the prolonged, desperate fighting which the Ministry's estimates presupposed.²

We may, indeed, reversing a familiar phrase, say that at this stage the Ministry of Economic Warfare was fighting the current war in terms of the next—in terms of the all-out, more or less continuous fighting of the next phase of the Second World War. German dependence on overseas supplies was certainly over-estimated. But it would have been disastrous to jump to the conclusion that the blockade could be abandoned: in other words, that the flow of goods to and from German-dominated Europe was unimportant as a factor in

¹ It is also worth noting that the Ministry's representative was not asked whether the war could be won by the blockade in twelve months, but, in effect, (1) whether Germany was now invulnerable, economically, to attack, and (2) whether means could be found of controlling supplies to Europe in ways which would reduce to vanishing point the calls on the Navy for patrols. In other words, whether the blockade was worth continuing (see p. 60 above). The report says that the Chiefs of Staff could not 'emphasize too strongly the importance of the substantial accuracy of this forecast, since upon the economic factor depends our only hope of bringing about the downfall of Germany'. But, in fact, the forecast, on a closer reading, is cautious. It says that it is impossible to estimate the amount of war material that the German fighting forces would consume under the postulated conditions; but that, deprived of all imports of essential materials, the quality of her equipment would be 'expected to decline'.

² Cf. the discussion in *The United States Strategic Bombing Survey, Overall Report (European War)*, p. 31.

German, and therefore British, calculations. And given the need for the blockade, the common-sense course was to administer it as efficiently as possible. The higher officials of the Ministry were soon aware that the mood of consternation after the French disaster might take forms which would endanger both the continuance of the economic war and even the prosecution of the whole war effort, and it seemed, therefore, right to combat pessimism: so the possibilities of the economic blockade continued to be vigorously propounded, and if it was not in the Ministry to command success, it did at least endeavour to deserve it.

From the staff discussions of May and June 1940 there emerged the first sketch of the drastic changes in the machinery of contraband control which came into operation in August 1940. The new plans were announced by the Ministers of Economic Warfare and Shipping on 30th July 1940, and although none of the devices employed was entirely new—most of them had been practised even in the 1914–18 war—the comprehensiveness of the scheme represented a substantial innovation and made possible the maximum utilization of diminished resources. The arrangements will be examined in some detail in the next chapter, but we may note briefly here that there were three main features:

Compulsory navicerting. The navicert system now became compulsory in the sense that Britain might seize goods, and possibly the ship carrying them, if a navicert were not produced on demand; the willingness of the United States Government after July 1940 to acquiesce in this system (although it continued to refrain from official approval) made it possible to assume that if goods were not covered by navicerts there was a presumption of enemy destination.

Ship warrant. This was a document which was to be issued to each ship whose owner had given undertakings to comply with the British regulations. Without this warrant the British authorities were not prepared to make available to any of the company's ships the various important shipping facilities under British control, such as the provision of water and bunkers, dry-docking and repairing, insurance, stores, and so on. If the shipowner tried to run even one cargo without navicerts, these facilities might be denied to all his ships, and in view of the dependence of neutral shippers on these widespread British-controlled facilities this would often be a most serious inconvenience.

Compulsory rationing. It was announced on 30th July 1940 that navicerts would now be granted on a scale which would allow imports adequate for domestic consumption by the European neutrals but not for re-export to other countries. The rationing programmes were based on quarterly import quotas which were in operation by autumn 1940, and continued with various detailed adjustments

until the end of the German war. In view of Turkey's special position as an ally, the quotas in her case were of a more informal character than those for the other European neutrals.

This was the basic plan of contraband control which was put into full working order during the winter of 1940-41, and which continued without fundamental change for the rest of the war. Enemy export control continued, and was now concerned almost exclusively with shipments from the Iberian Peninsula; neutral shipowners engaging in this trade were also made liable to the sanctions provided by the ship-warrant scheme.

It will be clear that these arrangements removed some of the handicaps—particularly the ban on forcible rationing and the 'voluntary' character of navicerts—which had hampered the control in the first period of the war. The threat of sanctions under the ship-warrant plan was also a positive advance. But the programme, in spite of the brave flourish of publicity which accompanied it, was also a rather desperate attempt to make a virtue of necessity. Compulsory navicerting did not prevent blockade running with valuable cargoes; compulsory rationing could be, and was, twisted by German and Falangist propaganda into a scheme to starve Spain; there was a campaign inside the United States for the supply of foodstuffs and other forms of relief for civilian populations within the blockade area; the Royal Navy almost ceased to function in the provision of patrols, and the Ministry had to watch more or less helplessly the great leak—almost a flood—of shipping and goods to Vichy French ports.

The result was that the new system created new problems, and an ever-intensifying campaign to secure by negotiation what could not be imposed by force. Clearly the co-operation of the American republics was the essential condition of success, and in the narrative below we shall consider the Ministry's relations with America at some length before examining the position in Europe. There was an active policy of economic aid to Spain, and there were prolonged, though largely abortive, negotiations with the Vichy and Moscow governments in an attempt to secure an agreed basis for the restriction of supplies to Germany. Increased attention had to be given to the problem of relief, and, largely as a result of pressure from the State Department, certain relaxations of the blockade were made for Spain, Vichy France, and the French North African Empire. The relations with the various European neutrals, or pre- and post-belligerents, will be examined in separate chapters.

The reshaping of the Ministry's plans was not achieved without considerable opposition at many points from the Foreign Office. There was a tendency to accept compulsory rationing in principle, but to argue that it must be administered tactfully, without 'pin-pricks', and without doing anything to throw the sensitive or sulky

or timid neutral into the enemy's arms. In later chapters we shall see how frequent were disputes on these points during the second half of 1940. It was seldom easy to say how far neutral protests were due to a genuine sense of grievance, and how far to tactics; and it was often hard to explain, even to other Government departments, the exact grounds for suspicion when navicerts and other facilities were refused. The general aim of preventing the accumulation of large stocks of dangerous commodities in adjacent neutral territory was not questioned, but it was easy for the Foreign Office and the harassed British diplomats abroad to wonder whether the Ministry was not, on occasion, making heavy weather over trivialities. Many of these issues adjusted themselves amicably enough in time. The policy was never limited to the mere restriction of supplies, and had throughout the more positive purpose of building up where possible the economic life of the neutral, partly in order to win his confidence in Britain's control of the situation, partly to remove the necessity for his economic dependence on Germany. There was, however, an undoubted survival into this second phase of the war of the earlier tendency for economic warfare to be praised on the one hand as the country's main weapon, and for it to be restricted on the other in the search for neutral goodwill.

In pre-emption, on the other hand, the Ministry had much greater opportunities. It was agreed that the buying-up of supplies in adjacent neutral territory was an essential part of the new programme, and by August 1940, when the Ministry had been able to make up its mind as to the effect of the German conquests on the European deficiency position, a revised programme for the co-ordination of pre-emption and rationing was elaborated. The main new factor in the situation was believed to be a shortage in occupied territory during the coming winter of animal fodder, which would lead to widespread slaughtering and a consequent temporary sufficiency of animal fats. Oilseeds, oilcake, and fish and vegetable oils accordingly took the highest place (along with petroleum and certain minerals) for pre-emption at this period, and the active phase in the activities of the United Kingdom Commercial Corporation began.

It will be remembered that the Corporation had been formed on 11th April 1940 with an initial capital of £500,000, the Treasury being the sole shareholder. As a result of steadily increasing business and of the length of time involved in turning over money between the Near East and Great Britain, this capital had by 1941 been increased to £1½ millions. The U.K.C.C.'s subsidiary, the English and Scottish Commercial Corporation, had an initial capital of £250,000, which was increased to £3¼ millions in July. This second corporation was authorized, if necessary, to lose its entire capital in one year from the date of its formation. The parent company, the U.K.C.C., was to

trade on a commercial basis, endeavouring to preserve its capital intact, but nevertheless doing business which was beyond the capacity of the private trader. It was then agreed with the Treasury that no further increases in capital would be authorized, any further requirements of the two companies being provided against notes issued by them.

The U.K.C.C. was in the first instance authorized to operate in the Balkans, Greece, and Turkey. It was soon found that the limited purchase of a few selected commodities for pre-emptive reasons gave small satisfaction to the governments of these countries, and did little to check or shake the highly-organized trading systems which Germany had built up and which absorbed over half their total exports and imports. By the end of July 1940, therefore, the Treasury had agreed to a general scheme of two-way trade for Turkey, by the middle of August for Greece, and by October for Spain. The U.K.C.C. was also given a monopoly of the supply of jute, tin, rubber, wool, and cotton and used these valuable raw materials as bribes in the Balkans to obtain goods of supply and pre-emptive value. Generally speaking, however, the U.K.C.C. entered the field too late in the Balkans, and it is doubtful whether in any circumstances much could have been done in view of the deep German penetration and the imminence of German political and military pressure. There was some success, however, in Greece. In the Iberian Peninsula consignments of refugee cargoes and other German deficiencies were bought up, the supply of wolfram to the enemy curtailed, and German purchases of tin made very expensive. In Turkey, the combined political and pre-emptive purchases at least helped to convince the Turks of Britain's continued ability to buy and supply.

Pre-emption had originally been planned to operate inside the contraband area, but by March 1941 the French and Japanese willingness to supply the enemy via Marseilles and Trans-Siberia, coupled with the new policy of blockade by control at source, led to the extension of pre-emptive buying in South America, the Far East, the Middle East, and Oceania. Attempts to secure rubber in Thailand and Indo-China, and wolfram in China, made little progress however, and the Japanese entry into the war in December 1941 caused the loss of practically the entire amount that had been bought. But the outstanding feature of pre-emption during 1941 was the gradual growth of United States purchases in South America. The problem there was so vast that it was considered useless for the British to attempt pre-emption unless the United States could be persuaded to accept the major part of the financial burden. After the United States Government had announced, in February 1941, its intention to embark on a policy of purchases in order to help British economic-warfare policy, the Treasury agreed to a plan for British pre-emptive

purchases against Japan as well as against Germany, and in May 1941 a programme was approved for discussion with the United States Government. This covered wool, quebracho, rubber, iodine, platinum, beryllium, industrial diamonds, wolfram, molybdenum, and mercury. The basic principle of the British programme was that purchases should be concentrated in countries with easy currencies, and that the United States Government should concentrate on countries with difficult currencies. By far the largest item was wool, but, apart from this and small purchases of molybdenum in Peru, iodine in Chile, and ipecacuanha in Brazil, little direct pre-emptive buying by M.E.W. was necessary after the United States had decided to take over all purchases of rubber, industrial diamonds, platinum, and wolfram.

The Ministry was less successful in controlling the flow of goods across the Russo-German frontier; the negotiations carried out by Sir Stafford Cripps in Moscow during the winter of 1940-41 led to no fundamental modification of the various Soviet-German supply-purchase agreements, and it was on the Far East that the chief hopes of effective action were concentrated.

Allied policy in the Far East was not, however, confined to the more immediate problem of supplies to Germany. A separate, but closely related, problem was that of preventing Japan herself from entering the war against the Allies, or of undermining their position by progressive encroachment on their sources of economic strength. The German victories in the summer of 1940 turned Japan from an unsympathetic neutral into an unfriendly pre-belligerent, and her accession to the Axis by the conclusion of the tripartite agreement of 27th September 1940 defined the character of the new political and economic situation in the Far East: from this point she had to be regarded not only as a middleman for enemy trade, but also as a potential enemy.

The story of British efforts to meet this new situation is an extremely complicated one, and it is quite impossible to treat it as a mere side-show of the economic war in Europe. The whole range of Pacific problems was involved; it was Japan whose aggressions, miscalculations, and insincerities brought the United States into the war, even if Germany was considered throughout to be the real menace to American security. Moreover, economic pressure was the main weapon of the Allied empires and the United States in their efforts to keep Japan at peace.

The United States Government was not prepared before the spring of 1941 to go beyond a limited number of total embargoes on exports to Japan, and accordingly the plans of the British Government for resisting Japanese aggression could not be effectively applied during the winter. Events immediately after the French collapse soon showed

that although most people in Japan believed that Great Britain would be beaten, they were undecided as to the wisdom of an immediate breach. But the Japanese Government was determined to secure certain immediate objectives such as the closing of the Burma Road, and there were varying degrees of pressure on French Indo-China and the Netherlands East Indies. The Burma Road agreement was concluded on 17th July 1940, and made a considerable impression in the United States, where there was, however, no willingness to resist Japan at the cost of war. During July the State Department examined and rejected a proposal that the United States should cut off all supplies of oil to all foreign countries including Japan; certain limited restrictions, particularly on the export of aviation fuel, were announced on 31st July, but this merely had the effect of raising Japanese demands for their annual oil requirements from the Netherlands Indies to two million tons. Thus, the effect of limited restrictions in the United States was likely to be increased pressure on the British and Dutch, and there was the additional danger that concessions made in these circumstances for the purpose of avoiding war would lead to criticism in the United States that the British were profiting from American self-denial.

It is probable that the American embargo was imposed in July without full understanding of the essence of the problem, which was that no such restrictions would be effective unless they were on a global basis, and were accompanied by a willingness to risk Japanese retaliation. The question continued under discussion in Washington during August and September; the situation from the American angle was complicated by the fact that United States companies were supplying Japan from sources outside the United States, including the N.E.I. In the end the State Department could not ask more than that the oil companies should resist the more extreme Japanese demands, and should avoid long-term contracts. In the course of these discussions the Netherlands Government was left in no doubt as to the inability of both the United States and Great Britain (though for different reasons) to offer military assistance if the refusal of Japanese demands led to war.

There was much uneasiness in British circles as to the attitude of Netherlands officials in London and the East Indies towards the threat from Japan. The Ministry's aim was to secure the setting-up in the Netherlands East Indies of an adequate system of control for blockade purposes against Germany, and as this would necessitate the regulation of the supply of dangerous commodities to Germany through Japan it would, if carried out adequately, automatically involve the rationing of Japanese imports. As early as 20th May (1940) a note was handed to the Netherlands Minister in Tokyo requesting the annual supply of native produce far in excess of

existing exports to Japan. Events were to show that British uneasiness as to the Dutch attitude was unnecessary; the quite justifiable cautiousness of the Netherlands officials in the summer and autumn of 1940 was the prelude to many months of stubborn and dignified bargaining with Japanese delegations in Batavia, and not to any weak-kneed surrender to the more extreme Tokyo demands. The successful outcome of the Battle of Britain and the reopening of the Burma Road on 18th October 1940 showed that there would be a similar policy of cautious stubbornness on the British side, and in October the War Cabinet set up a committee under Mr. R. A. Butler to keep British policy under review and to co-ordinate measures both in the Commonwealth itself and with the United States and Netherlands Governments.

The aim of this Far Eastern Committee was to arrange for immediate steps (1) to guard against the accumulation in Japan of stocks of raw materials which would make her invulnerable to blockade in the future, and (2) to discourage her from ranging herself against the democracies, but without compelling her to take violent action. In other words it was hoped that the successful application of this policy would serve the double purpose of limiting Japanese re-exports to Germany by the Trans-Siberian route, and of effectively crippling her capacity to make war against the Allied powers. Comprehensive proposals on these lines were submitted to all the governments concerned during October. Clearly the committee had set itself a most delicate and complicated task; it was impossible in view of the military situation in Europe to risk war without American co-operation, and the United States Government, although prepared to take drastic action against a limited number of commodities, was in no hurry to participate in a comprehensive programme of restrictions, or in common discussions which would lead to Japanese complaints of encirclement. Discussions in Washington on these lines are described in Chapter XIV. The general result was that the comprehensive measures proposed by the Butler Committee had to be abandoned. The restrictions imposed were, nevertheless, sufficient by the spring of 1941 to call forth repeated protests from the Japanese, and the rapid extension of the United States export-licensing list meant that by June 1941 the United States restrictions were probably more severe than those of the Dutch and British Empires. Japan, however, had by this stage secured the lion's share of the output of tin from Thailand and rubber from French Indo-China. In February 1941 reports reached London of large French commitments to supply rubber to Japan, who had agreed to pass 25,000 tons to Germany. The Ministry had decided that 45,000 tons a year from all sources was the maximum that could be allowed to Japan with safety; as Indo-Chinese production was about 70,000 tons, even a

stoppage of rubber exports from Malaya and N.E.I. would not solve the problem. It was finally solved, as far as Germany was concerned, by the closing of the Trans-Siberian route in June 1941.

There is little doubt that June 1941 with the German attack on Russia, and not December 1941 with Pearl Harbour, is the real turning point in the economic war. It was clearly so as far as one of the Ministry's major problems, the Russian leak, was concerned; but it was also at this point that the developing plans of the United States Government began to make a real impression on the economic situation, and the turning point in the Pacific is certainly the freezing of Japanese assets in July 1941. On the other hand, this event was preceded and followed by prolonged negotiations between the Japanese and United States Governments, and a true picture of Far Eastern developments really calls for a comprehensive survey of the whole story from the autumn of 1940 down to December 1941. This will be attempted in the second volume of this history.¹

¹ The problem of the Trans-Siberian route is discussed in this volume in Chapter XX, pp. 648-59. The earlier discussions in Washington over the restrictions of supplies to Japan in the winter of 1940-41 will be found in Chapter XIV.

CHAPTER XIII

THE MACHINERY OF THE BLOCKADE

WHAT we have called the traditional system of contraband control continued throughout this period, and indeed for the remainder of the war; but the great development of control at source reduced to small proportions the administrative work connected with this traditional system, while it made necessary a corresponding elaboration of new administrative machinery in London and the relevant embassies. This chapter will describe these new developments, and their effect on the structure of the Ministry.

(i)

Control at Source: the New Policy

The inadequacy of the existing methods of interception under the new conditions was illustrated repeatedly during July 1940. Various cases came before the Contraband Committee of American ships which had previously sailed to Italy, and were now being put on runs to the Iberian Peninsula. The result was an alarming increase in the volume of imports into Spain and Portugal; copies of ships' manifests received by the Prize Department showed the presence on board of items which the department wished to see detained or seized, and the committee in these cases invariably requested interception. But it was impossible for the Navy, which had to patrol the seas against German raiders, submarines, and possible invasion attempts, to watch, for economic-warfare purposes, a coastline stretching from the Arctic to Equatorial Africa; it had to say that in future it could undertake interception and diversion only in exceptional cases. As a result there were, and there continued to be, many evasions of the control in the Atlantic. In January 1941, to take one rather startling example, a German raider, the *Pinguin*, captured a Norwegian whaling fleet in the Atlantic; two of the oil refinery ships, the *Pelagos* and *Solglimt*, left for Western France on 25th January with German prize-crews on board, and another, the *Ole Wegger*, left for the same destination on 18th February. The three ships proceeded independently by a route fixed by the German Naval War Staff, and arrived at Bordeaux safely, without interference by the Royal Navy, on 11th, 16th, and 20th

March 1941 respectively.¹ It became clear in these and similar cases that the Ministry was faced with the fact that, in spite of the drastic reduction in the number of adjacent neutrals, the normal routine of control, as practised in the first winter of the war, could no longer be applied.

Although the changes in the technique of contraband and enemy-export control necessitated by this situation may fairly be described as revolutionary, their desirability had been recognized for a considerable time and in many quarters. Ever since the introduction of the navicert system in December 1939 the importance of making resort to it universal, and therefore 'compulsory', for traders in the United States and other exporting countries had been evident, and the part that the navicert machinery could play in the rationing of adjacent neutrals had been clear enough. American opposition had hitherto been an insuperable obstacle to plans for more complete overseas control, but on 8th July 1940, when Lord Lothian recommended that there should be at least a show of control in order to impress upon shipping companies the advisability of accepting only fully-navicerted cargoes, he was able to promise the full support of the State Department, and was 'satisfied that the shipping companies only require pressure through experience to exact navicerts in the case of every single consignment from the United States to Europe'. There is little doubt that some extension of control would have been attempted even if there had been no change in the attitude of the United States Government. American acquiescence did, however, facilitate the elaboration of the new system during July.

Departmental discussions made it clear that the close inter-dependence of three measures was essential to the success of these plans. These were (1) 'compulsory' navicerting; (2) restriction of the use of insurance, bunkers, ship's stores, cable facilities, and repairs, as a means of inducing neutral shipowners to accept control; (3) the rationing of adjacent neutrals. The fact that interception and detention could now take place only in exceptional cases meant that the inconveniences of delay and seizure of goods which had hitherto acted as a deterrent were largely removed. The withholding of access to British-controlled facilities throughout the world supplied, therefore, an effective means of inducing neutral shipowners to compel traders to make the applications for navicerts which constituted the so-called

¹ From the German point of view the operation called for considerable self-congratulation. The *Penguin* received information on 19th December 1940 from the Naval War Staff that the Norwegian whaling fleet was in the habit of operating at that time of the year in the area about 200 miles off South Georgia. The Norwegians used their radiotelephony with the utmost freedom, and on 27th December 1940 Captain Krüder of the *Penguin* made his first contact with the Norwegian ships when their messages were intercepted and translated by a German radio operator. The ships were captured without resistance. From the Royal Navy's point of view it must be remembered that at this time the *Scharnhorst*, *Gneisenau*, and *Scheer* were operating in the North Atlantic. Cf. p. 563.

compulsory system. It is also true that the compulsory navicert system was necessary to the success of the ship-warrant scheme. The scheme as a blockade weapon could be of full value only where there was machinery for the approval of cargoes and voyages, that is, where the navicert system was in operation. The success of the government's plans for the general control of neutral shipping in the interests of the Allies likewise depended to a considerable extent on the control of cargoes and the rationing of neutrals (particularly Spain and Portugal), as this would enable the Ministry of Shipping to forecast accurately the amount of shipping required for the trade of a particular neutral. The rationing of the imports of adjacent neutrals was, in turn, almost indispensable as a basis for the compulsory navicert arrangements. Spain had declared herself a 'non-belligerent' on 13th June, and there seemed a serious risk that she might be forced by Italy and Germany to go to war against the Allies. In these circumstances it was not sufficient to secure evidence that her imports were not being passed on to the enemy; by accumulating stocks she would be less vulnerable to blockade if she later entered the war, and might invite a German occupation if she did not do so.

The necessity for increased control at source was indicated to the War Cabinet in a series of memoranda by the Chiefs of Staff Committee in the middle of June, and a month later, on 13th July, Mr. Dalton laid before the cabinet proposals for contraband control in the Iberian Peninsula which made specific reference to the compulsory navicert system. These proposals included (1) the limitation of imports of all forms of contraband into Spain and Portugal to such amounts as were required for internal consumption only; (2) the enforcing of these rations by control of exports at source and the control of world shipping; (3) as these methods of enforcement could not be fully applied immediately, the announcement that ship navicerts would be made compulsory and that all ships sailing to Europe without ship navicerts, or clearances from Commonwealth countries, would be treated as blockade-runners liable to be seized in prize. He explained to the Cabinet that this use of the navicert system had no legal precedent, but 'I am glad to say that the Attorney-General, the Procurator-General, and my own legal adviser are agreed that, in present circumstances, the new system can be justified'. The cabinet approved these proposals in principle.

The legal position was set out in a minute annexed to Mr. Dalton's memorandum. The decision to 'universalize the system of navicerts' meant that navicerts would in future be available to shippers all over the world, 'and since His Majesty's Government do not normally refuse a navicert except where they suspect an actual or potential enemy destination, any unnavicerted cargo will, in future, be regarded as suspect and will be liable to be seized as prize'. It was also

proposed to universalize the system of ship navicerts. In this case also it could be assumed that any vessel not in possession of a ship navicert 'had sailed without one deliberately and with the full knowledge of her owner'. Such a ship would almost certainly be carrying unnavicerted cargo, since otherwise there would be no bar to the possession of a ship navicert.

The resulting position will be that the ship can be presumed to be carrying contraband to Europe with the knowledge of her owner. According to recognized principles of Prize law, the carriage of contraband with the knowledge of the owner of the ship renders the vessel liable for confiscation. In the circumstances, therefore, any ship intercepted on its way to Europe and not in possession of a ship's navicert will be liable to be seized as prize.

It was true that refusals might occur for other reasons than the suspicion of actual or enemy destination, but it seemed necessary to maintain that suspected enemy destination was the only ground for refusal. This should not, however, necessitate any considerable alteration of policy with regard to the granting or refusing of navicerts.

It may be that in certain cases we shall be held to have seized cargo without any adequate *prima facie* justification and shall incur damages in the Prize Court. This risk is one that must be run. But, further, I think we shall be justified, in existing circumstances, in giving considerable extension to the notion of what constitutes a potential enemy destination and that we shall be supported by the Prize Court in so doing, at any rate for the purpose of avoiding damage. I will not elaborate this idea here, which is bound up with the notion that the whole of Europe must now be regarded as being actually or potentially under enemy control and all goods imported into it as being actually or potentially at enemy disposal.

A proposal by the Admiralty for the establishment of a 'war zone' off the west coast of Europe and the north-west of Africa raised more serious legal problems. The zone proposed was the area contained within a line drawn 270° from Bishop Rock to longitude 15°W., thence down the meridian of 15°W. to the latitude of Mogador, thence 090° to the African coast. The generous width of the zone—approximately 300 miles west of the coasts—was arrived at after considering the effective range of German dive-bombers. Within this zone blockade-runners, it was proposed, would be liable to be sunk; ships without navicerts intercepted outside the zone would be seized in prize. The reason for this drastic proposal was the limited number of ships suitable for the purpose of maintaining the blockade of western Europe on the lines approved by the Cabinet on 13th July; it was considered that in order to make the control a sufficient deterrent to blockade-running, more drastic measures than sending ships in under armed

guard were required. In the past the rule had been that enemy merchant vessels should be sunk or destroyed only in exceptional circumstances, and the British view had been that there was never any justification for destroying a neutral vessel. Other nations, it is true, had not accepted this view, and the Declaration of London had proposed to settle the matter by a compromise under which the destruction of a captured neutral ship which would have been liable to condemnation was justified if the taking of the vessel into port would involve danger to the capturing cruiser or the success of the operations in which she was at the time engaged. It was, of course, assumed that provision would be made for the safety of the crew. The legal advisers to the Ministry and Foreign Office pointed out that if it were announced that ships without navicerts 'would be liable after seizure to be sent in or sunk according to circumstances', this would not necessarily involve action outside international law, although a plain announcement that ships without navicerts would be liable to be sunk would not be justified under existing principles or any admissible extension of them. The War Cabinet decided, however, on 23rd July, that the Royal Navy should not adopt a policy of sinking neutral vessels. It was agreed, on the other hand, that the area in question should be declared a war zone, and that the Ministers of Economic Warfare and Shipping should announce respectively the forthcoming adoption of compulsory ship navicerts and of ship warrants.

Further details of the navicert scheme were worked out in the second half of July at meetings at the Ministry attended by representatives of the Foreign Office, Admiralty, Censorship, and the India, Burma, Dominions, and Colonial Offices. The scheme was to be used not only to ration Spain and Portugal, but also to control mails and passengers as far as possible. The Dominions, India, and Burma Offices came to the conclusion that it would not be possible to extend the imperial export-licensing system to cover every article of export, but that for the purpose of rationing Spain and Portugal it would be sufficient if rationed commodities were subject to licence and local customs were satisfied, before issuing a ship navicert, that all articles requiring licences were duly accompanied by them. The Governments of New Zealand, Canada, Australia, and Newfoundland agreed to co-operate, and South Africa introduced the scheme later. On 24th July, Lord Lothian was instructed to inform the State Department in confidence of the scheme, and on 29th July he replied that their attitude was co-operative, and 'while not disposed to issue direct instructions to American shipowners that they should not sail without a ship navicert, the State Department are evidently concerned that none should in practice do so'.

On 30th July Mr. Dalton stated in Parliament that it had been decided to extend the navicert system to all seaborne goods consigned

to any European port as well as to certain Atlantic islands and to certain neutral ports in North Africa.

The full text of his statement is as follows:

German occupation of the West European coastline from the North Cape to the Pyrenees has greatly changed the conditions of the economic war. Many fewer ships are now engaged on legitimate neutral trade between Europe and the Americas. Moreover, we must now control not only shipping approaching the Mediterranean or the North Sea, but all shipping crossing the Atlantic.

To apply this control in the old way would mean diverting many ships far out of their course to contraband bases in British waters, either in this island or in West Africa. To avoid imposing such grave inconveniences upon shippers, shipowners and crews, His Majesty's Government have decided to extend the navicert system to all sea-borne goods consigned to any European port, as well as to certain Atlantic islands and to certain neutral ports in North Africa. In future ships sailing from a neutral port to any such destination must obtain navicerts for all items of cargo, and in addition a ship navicert at the last port of loading. Any consignment not navicerted, and any ship without a ship navicert, will henceforth be liable to seizure by our patrols.

The same rules will apply to outgoing trade. Ships sailing from European ports, or from certain Atlantic islands, or from certain neutral ports in North Africa, must have certificates of non-enemy origin for all items of their cargoes, and any ship whose cargo is not fully certificated will be liable to be seized, together with all uncertificated items of the cargo. An Order-in-Council giving effect to these changes will be issued forthwith.

It has been suggested in some quarters that we intend to extend the blockade to certain neutral countries. This is not so. Where supplies can reach such neutrals without the risk of falling into the hands of the enemy, we shall grant navicerts on such a scale as to allow imports adequate for domestic consumption, but not for re-export to other countries. Moreover, it will be the policy of His Majesty's Government not merely to allow such adequate supplies to pass through our controls, but to assist neutral countries to obtain them.

These measures will greatly benefit those engaged in honest neutral trade. Delays in such trade, due to the exercise of our controls, will be much reduced. At the same time a heavy blow will be struck at those who seek to elude our controls and to carry supplies either to or from the enemy.

Our friends will be further encouraged and our enemies discomfited by some ingenious provisions which my Right Honourable Friend the Minister of Shipping will today announce.

Finally, I would recall that on 2nd July I informed the House that contraband control had been extended to French territory under enemy control and that no goods were being allowed to reach the enemy through unoccupied France.

At the same sitting the Minister of Shipping announced the introduction of the ship-warrant scheme, and a new Reprisals Order-in-Council, published on 31st July 1940, supplied the legal basis for the new measures.

(ii)

Compulsory Navicerts

The new navicert arrangements were elaborated and improved during the next twelve months, and we can now examine their main features in more detail.

Basic arrangements. The Reprisals Order of 31st July 1940 announced that further measures would be taken to restrict enemy trade as a result of continued breaches of international law by the Germans and Italians. The restrictions applied to both exports from and imports into all countries in the navicert area; exports required certificates of origin and interest and imports required navicerts, imperial export licences, or transshipment licences. Any undocumented items of cargo were therefore liable to seizure, with the exception of goods such as tobacco and medical supplies, which were not on the contraband list. Any vessel on her way to or from a port through which goods might reach, or come from, enemy territory or enemy armed forces must be provided with a ship navicert valid for that voyage. Otherwise the ship herself would be liable for seizure, unless it could be proved that it had been impossible for her to call at a port where a ship navicert could have been obtained. Seizure of the ship would not necessarily mean seizure of the cargo; fully-documented cargo in such a ship would not be seized. A ship or cargo navicert, export or transshipment licence ceased to be valid if any condition to which it was subject was not observed. A ship navicert ceased to be valid if after obtaining it the ship called at an enemy port, or at any port other than the declared port of destination. Vessels sailing in ballast to or from the navicert area also required a ship navicert.

The navicert area included at first Finland, the Baltic States, Sweden, Switzerland, Spain, Portugal, Spanish and International Morocco, Yugoslavia, Hungary, Greece, Bulgaria, Rumania, Turkey, European Russia, and the Spanish and Portuguese Atlantic islands. After 10th August 1940 no further applications for the Baltic States were entertained, and in practice applications for Greece, Yugoslavia, Hungary, Rumania, and Bulgaria were not accepted, though certain approved cargoes were on occasion allowed through after application to the Ministry and after a safe conduct had been obtained from the Italians. During the months from October 1940 to May 1941 the scheme was extended to cover French West Africa, Portu-

guese Guinea, Liberia, Madagascar, Réunion, Syria, Iceland, Eire, and all ships sailing to and from the Persian Gulf. On 5th December 1940 the system was withdrawn from Iceland and later from Yugoslavia, the Balkans, Greece, Finland, and European Russia as they came under German domination. In July 1940 the navicert-issuing countries included Egypt, the Sudan, Bolivia, Chile, Colombia, Costa Rica, Cuba, Ecuador, Haiti, Nicaragua, Panama, and Peru. By August they had been further extended to include Iran, Iraq, Thailand, Saudi Arabia, Japan, Liberia, the Philippines, and the Spanish and Portuguese colonies.

The introduction of the 'compulsory' navicert system made possible the establishment of a much tighter control. 'Z' navicerts were cancelled and all applications were referred to London. European neutrals were strictly rationed in the more important commodities and quotas were fixed for quarterly periods. When these quotas were filled or the ration for the particular period was 'nil', navicerts were refused. They would also be refused if any suspicion attached to the consignor, consignee or forwarding agent, or if the applicant or consignee were on the Statutory List. Care was necessary when refusing, on consignor grounds, applications made in the United States, in view of the earlier opposition to this practice by the State Department; but though the Department probably realized that applications were being refused on consignor grounds, it was prepared not to interfere so long as the applicants were kept quiet. Navicerts for non-contraband goods which were known, or suspected, to have enemy destination were refused and the goods were therefore rarely shipped, as shipping companies would not risk incurring the penalties which would result from their carrying unnavicerted cargo. Any doubtful cases were referred to the Contraband Committee. If a navicert issued during a particular ration period was cancelled, or if it expired without being used during the period, the amount in question was normally deducted from the total for the period, and the balance available for the succeeding quarter increased. Until information as to such cancellations and expirations was received, however, the Ministry had to debit the commodity with the amounts in question, and it was estimated in October 1940 that the Ministry's records were always about a month behind the times in this respect. It was accordingly decided, in fairness to the importing neutrals, to ask the American missions, which had the most up-to-date information on the point, to telegraph to London weekly statements of expired and cancelled navicerts.

When all cargo was covered by certificates of origin, imperial export licences, or navicerts, the consul at the last port of loading was authorized to issue a ship navicert. At the original port of loading and at each intermediate port where any cargo was accepted a document

was given to the master by the British consul certifying that all cargo loaded at that port had been approved. These documents gave the vessel immunity from seizure in any controlled area through which she might have to pass before obtaining the ship navicert at the last port of loading. Navicerts, certificates of origin, and ship navicerts were surrendered at the port of final unloading and sent to London for cancellation. No ship navicert was issued to ships owned by, or on charter to, persons or firms on the Statutory List, Ships' Black List or the Ships' Discrimination List. Finally, in an attempt to tighten up the system still further, the 'navicert undertaking' was introduced in July 1941. The master of a ship applying for a ship navicert was required to sign a document stating that all cargo, crews, passengers, and mails had been approved and that no others would be accepted, and also that only such stores and bunkers as were necessary for the voyage would be loaded. Copies of the manifest, passenger list (if any), and way-bills for any mail carried were then attached to each of the duplicate undertakings, one set being sent to London by the quickest available route and the other being handed to the master to accompany the ship. If the master refused to sign the undertaking, the fact was reported by telegraph and the ship navicert refused.

Navicert applications during this period are given in the following table:

Navicert Applications dealt with by M.E.W.

<i>Month and year</i>	August 1940-July 1941		
	<i>No. received</i>	<i>No. granted</i>	<i>No. refused, cancelled, etc.</i>
August 1940 . . .	3,780	2,325	1,455
September . . .	3,928	2,470	1,458
October . . .	4,480	3,212	1,268
November . . .	4,620	3,287	1,333
December . . .	5,008	3,741	1,267
January 1941 . . .	5,210	3,760	1,450
February . . .	6,002	4,810	1,192
March . . .	6,080	4,642	1,438
April . . .	6,157	4,590	1,567
May . . .	5,560	4,002	1,558
June . . .	6,120	4,980	1,140
July . . .	5,800	4,132	1,668

Period of validity. At first, navicerts were valid for two months from the date of issue. Many shippers found this time insufficient, and after much discussion with the embassy in Washington, the Ministry decided that a navicert should be valid for the quarter in which it was issued and should be applied for one month in advance. Lord Lothian appears to have felt that any change would upset and confuse American shippers, but the obvious advantages, including the fact that navicerts would now be brought into line with the quarterly rationing periods, led to his reluctant agreement to the changes at the end of January 1941. The new system was finally introduced in two

stages. The validity of all navicerts granted but not shipped before 31st March 1941 was extended to permit shipment during the three months ending 30th June 1941, and the validity of any navicert issued after 31st March was extended for the same period. Applications for the third quarter could then be made after 1st June 1941, the applicant stating in which quarter he wished to ship. The new procedure helped the Ministry, by saving time; it appeared to be something of a concession to American exporters, and was warmly welcomed by the State Department for that reason. It was further conceded that where navicerts had been issued during the last month of the quarter goods might be shipped during the last ten days (to avoid delay in using available shipping space). In July 1941 it became possible for exporters to apply in advance for navicerts for goods requiring manufacture.

Arrangements with Commonwealth countries. Imperial export licensing as it had developed in the winter of 1939-40 was for all essential purposes a system of compulsory navicerting, and accordingly such licences were regarded as equivalent to navicerts and accepted when ship navicerts were issued. Vessels sailing direct to a port in the navicert area from a port in the Commonwealth normally obtained a ship navicert at that port, but if they were calling at an intermediate port to load additional cargo, a ship navicert was required from the British consul at that port in respect of such cargo. Vessels proceeding to a port in the British Commonwealth (except Eire) did not require ship navicerts unless they intended to call at an intermediate port.

Some difficulties arose over Canadian goods which were transhipped in the United States. The embassy in Washington was determined that nothing should leave the United States which was not covered by valid navicerts, and in November 1940 it was arranged that Canada should not issue export licences for goods to be transhipped until informed that a navicert had been granted to the American shipper. London maintained that navicerts were unnecessary for these goods and, if issued, would probably lead to confusion and double recording of the commodity in question. On 12th May 1941 the embassy in Washington requested authority to issue without reference to the Ministry navicerts for consignments covered by imperial export licences on the ground that much confusion would result if shipping companies were asked to recognize licences, which often varied considerably in form. Finally, at the request of the Canadians themselves, it was decided that Canadian goods in transit through the United States should be navicerted, but that licences issued by other Commonwealth countries must be regarded as equivalent to navicerts. In July, however, the Washington embassy was still insisting that to ask American authorities and shippers to recognize a multitude of different forms would mean confusion and a

weakening of navicert control, particularly as by this time all such goods required United States export licences. It therefore pressed for authority to issue 'Z' navicerts for consignments of all such goods, and London was obliged, though very reluctantly, to revive the issue of 'Z' navicerts in this instance. (After April 1942, when navicerts and American export licences were merged, a general in-transit licence was issued for all such goods.)

Arrangements with neutrals. Certain special arrangements had to be made to meet the situation in various neutral countries. Vessels sailing to Mediterranean ports with cargo for Switzerland (or relief cargoes for France) could obtain navicerts only as far as Gibraltar. A ship navicert for the rest of the voyage was issued at Gibraltar if the master undertook to proceed direct to the port of discharge in the Mediterranean, and to make Gibraltar the first port of call on the return voyage. French North Africa was declared enemy territory on 30th July 1940, but under agreement with the United States a few ships were permitted to sail between America and Casablanca on condition that all cargo from the United States was covered by navicerts and a ship navicert obtained for the round trip, and that on the return voyage only domestic produce of French North African origin was carried, covered by certificates legalized by American consular officers in North Africa. Limited trade between the French West Indies and North Africa and between Spain and Portugal and North Africa was also allowed under similar conditions, ship navicerts being issued for the round trip at the Spanish or Portuguese port of departure. Vessels sailing to or from French West Africa, Madagascar, or Réunion required a ship navicert. As there were no British consuls in French West Africa and those in Madagascar and Réunion were not permitted to use cypher, the system was confined to imports, but vessels were obliged to call at a British port for examination.

To deal with the difficulties of diversion to a contraband control base in the Mediterranean a 'local traffic clearance' scheme was set up, and was in force by September 1940. It applied only to local traffic in the Eastern Mediterranean and the Adriatic, and to ships sailing to and from the Black Sea, from and to ports within that area. Ships carrying cargoes wholly approved by British consuls at ports of loading were given a document called a 'Mediterranean Local Traffic Clearance', exempting them under certain conditions from diversion to a base. The navicert procedure was not considered to be sufficiently rapid or elastic to deal with the many small consignments found upon such ships, and a very wide discretion was given to the local consuls to approve or disapprove shipments on the spot: this, it was hoped, would make the scheme popular with and attractive to shipowners. Large or suspicious consignments were referred to the Ministry.

Ships carrying cargo to Iran, Iraq, and Syria via the Persian Gulf required ship navicerts, and if any cargo was subsequently loaded at a port in Africa or Asia a fresh ship navicert in respect of such cargo was necessary. For destinations in the Persian Gulf other than Iran and Iraq a ship navicert was issued provided that cargoes for these countries were covered by valid navicerts. Vessels sailing from the Persian Gulf required ship navicerts subject to the usual conditions, provided that cargo for countries within the navicert area was covered by navicerts and cargo for countries outside the area was approved for shipment by a British consul. At the end of 1940, when there was danger that Syria would actively help the enemy, the maximum economic pressure was exerted, in order to keep her weak and in the hope of forcing the French authorities there to join General de Gaulle. The Morton Committee¹ strongly advised the refusal of all navicerts for Syria, but in February 1941 it was agreed that Syrian wool and silk should be sent to the United States in exchange for American newsprint and foodstuffs. In August 1941 Syria and Lebanon were declared to be no longer enemy territories and navicerts were therefore not required except for shipments via Iran or Iraq. The extension of contraband control to the Persian Gulf and Red Sea is described in Chapter XVIII below.

Between Spain and Portugal and the Atlantic islands, Spanish and International Morocco and these islands, or the Spanish and Portuguese islands, only ship navicerts were necessary. Produce from Portuguese Africa destined for Portugal, Portuguese Guinea, and the Portuguese Atlantic islands did not at first require navicerts, though goods going to other countries in the navicert area did. The scheme was later applied to all goods leaving Portuguese Africa for navicert destinations. An Anglo-Portuguese rationing agreement was concluded early in 1941 and quotas for all imports were fixed. Local produce going to Spain or the Spanish possessions from Spanish colonies was regarded as automatically covered. Other goods required navicerts and all goods consigned to other countries in the navicert area had to be fully covered.

What was known as the inverted system was adopted to simplify the procedure involved in the rationing of certain restricted commodities imported by Switzerland. Application was made to the Ministry by the neutral importer in the consignee country through his government; if there was no objection on consignee grounds, London would then authorize the mission in the exporting country to issue a navicert provided that the consignor was approved.

¹ Committee on Foreign (Allied) Resistance, set up by the War Cabinet on 16th August 1940 under the chairmanship of Major Desmond Morton to make recommendations on the means calculated to stimulate the resistance to the common enemy of more Allied countries and their overseas possessions.

The new arrangements could not be applied with much success in the Pacific; the continued objections of the United States Government prevented the setting-up of machinery for interception in the Caribbean of ships from Latin-American ports to Japan (see p. 495), and Allied naval power did not make possible any extensive system of control in Far Eastern waters. As the Japanese Government had refused to recognize the navicert system, Japanese shipping companies could not sign the ship-warrant undertaking; it was not considered politically desirable to hold Japanese ships for long periods, but their failure to obtain warrants could not be completely ignored, and they were, therefore, subjected to a routine delay of some twenty-four hours. On 31st August 1940 the Japanese Government protested orally in Tokyo to the British commercial counsellor against the application of the ship-warrant scheme to Japanese ships, and there was a further oral protest on 2nd September. The commercial counsellor, however, gained the impression that the Japanese Government would be willing to consider a 'practical solution', including some informal undertaking by the companies. Accordingly, the Ministry suggested a special undertaking by each company that its ships should not sail to or from ports in the navicert area without furnishing reasonable evidence that no cargoes were from, or destined for, enemy territory: there should also be the usual information undertaking. Conversations continued intermittently during the winter, and the three principal Japanese steamship companies (the N.Y.K., the O.S.K., and the Yamashita) were involved. In January 1941 the South African authorities, on the recommendation of the Contraband Committee, seized cargoes in three Japanese ships sailing from South America to Japan, and a further cargo was seized in February. As a result the Japanese *chargé d'affaires* approached the Union Government during March and suggested that such ships bound from South America to Japan via South Africa should be granted navicerts. The suggestion was accepted in principle in London and details were worked out, but the increasing tension of Anglo-Japanese affairs during the summer prevented the further development of the arrangements.

(iii)

Ship Warrants

The ship-warrant scheme certainly provided a more effective sanction for the compulsory navicert system than the occasional interceptions to which the exiguous naval patrols were now limited. The ship warrant was a document issued to each neutral ship whose

owner had given satisfactory undertakings to do what the British Government required. The shipowner undertook to comply with economic-warfare regulations and, above all, not to sail to or from the navicert area without a ship navicert. In return, his ships were guaranteed access to British-controlled facilities all over the world. These included access to British insurance and credit, and also to bunkers, stores, charts, dry docking, and repairing. The inconveniences resulting from the withholding of these facilities applied to all ships owned by him, including those operated outside the navicert area. Control was further strengthened by the extension of the Ships War Trade Lists. It must always be remembered that the ship-warrant system was of importance not only for economic-warfare purposes, but also for the securing of tonnage and for the furthering of other sides of Allied shipping policy. The Ministry of Shipping was, in fact, primarily responsible for the administration of the scheme, although it worked in close collaboration with the Ministry of Economic Warfare.

Although the new arrangements were announced on 30th July 1940, some weeks elapsed before the system could be fully enforced. To avoid unnecessary inconvenience between the time when undertakings were signed and the warrants issued and distributed to vessels far from the United Kingdom, temporary ship warrants were issued locally at a suitable port of call under seal by the British consul, or by the appropriate authority in British colonial dependencies. After 23rd August control was tightened; ships not bearing a ship warrant were refused facilities pending reference to London. As a result of this pressure the number of applications for warrants showed a satisfactory increase; over 200 were authorized during September. By the end of the month it was estimated that a little over fifty per cent. of the total ocean-going tonnage of the world (excluding tankers) consisted of British and Allied ships, and of ships whose owners were warrant holders.

But the success of this pressure was not complete; it was limited partly by political considerations, and partly through inability to prevent recourse to alternative facilities under neutral control. There was, nevertheless, steady progress; the principal facilities, such as stores, repairs, water, and bunkers, were in general demand, and applications for permission to supply one or other of them were received almost daily.

Bunker control was restricted at this stage because the complete co-operation of the United States Government, and of United States firms, could not be secured. This applied particularly to oil-bunkers, but partly also to coal. As a result, while bunker control was virtually complete on the shores of the Indian Ocean, it was practically non-existent on the Pacific routes, and did not amount to more than a

serious embarrassment to non-warrant holders in the Atlantic. Widespread control had been set up by the United States oil companies since 1920, so that supplies could not be effectively restricted without their co-operation. Apart from the United States companies there were no uncontrolled oil-bunker supplies of any importance in American trade except those of Mexico, although the entry of some neutral countries, such as Chile and Spain, into the bunkering business complicated matters.

In November 1940 approaches were made to the Standard Oil Company of New York, the Standard Oil Company of New Jersey, the California Texas Oil Company, and the Standard Vacuum Oil Company. These companies, and later the Union Oil Company of California, promised to help by refusing or delaying supplies of bunkers in non-American ports when requested by the British authorities to do so; they agreed also to inform the Minister of Shipping of nominations when supplies were to be made in American ports. They were not, however, able to promise unconditional co-operation, and in particular had to make their action with regard to non-American ports conditional on their not being bound to supply by contract or by local law. At least one of the companies had no hesitation in renewing bunkering contracts for the year 1941 with French and other shipping companies of which the British disapproved, and in general the amount of practical co-operation shown by the companies in the months following the November agreement proved disappointing. A threat to the British bunker control on the East African coast was created by an installation set up by the California Oil Company at Lourenço Marques, and steps had to be taken in April 1941 to limit supplies of oil to it. As it happened, effective control of the persons to be supplied was held by the Government of South Africa, as the installation was owned by a subsidiary company registered in the Union.

There were similar difficulties in connection with coal bunkers in South America. In World War I the British had had practically a complete coal monopoly, and as the problem of oil-bunker control was almost non-existent it had been possible to make the system of coal-bunker control almost watertight. Now, however, the difficulty arose that in certain South American ports such as Montevideo there were non-British (including German) firms quite prepared to supply ships to which British firms had been prevailed upon to refuse supplies; a British company in these circumstances would lose business without any corresponding benefit to the blockade. As the non-British companies, including the German, could obtain supplies from the United States the only practicable means of control seemed to be to persuade the United States Government to bring coal exports to these ports under the export-licence system. An attempt to do this was made in

September 1940 without success. The possibility of seeking the voluntary co-operation of coal-exporters in the United States was considered, but it was not believed that such co-operation, even if offered, would be very successful, as there were known to be persons outside the body of regular coal exporters who would be willing to send shipments to enemy companies consigned to banks or other 'cloaks'. South Welsh firms complained that the United States producers had reaped practically the whole advantage of the elimination of German coal exports by the blockade; British firms had been forced to neglect other markets in order to maintain deliveries to the French and home war industries. After the beginning of 1941 further restrictions on British coal exports increased the demand for United States supplies. Accordingly enemy coal-bunkering firms in South America continued throughout the first half of 1941 to receive shipments of coal from the United States, and this no doubt contributed to attempts to run contraband through the blockade. The shipments were, however, difficult to trace until they reached the enemy consignee, because they were generally consigned 'to order' and the name of the ultimate consignee was not disclosed. Enemy firms known to be engaged in this traffic were Franz Kohnitz of Rio de Janeiro, Riberena del Plata of Montevideo, Riberena del Plata of Buenos Aires, and Thyssen Lametal of Buenos Aires, all on the Statutory List.¹

Somewhat similar difficulties were encountered in Lisbon, although the opportunities of control were greater for this and other ports in the navicert area than they were for the Americas. In Lisbon the coal bunkering business was mainly in the hands of Portuguese firms, who had hitherto drawn their supplies almost exclusively from the United Kingdom. With the inevitable cutting-down of British exports it seemed at first probable that the opportunities of control would diminish, and from time to time the Portuguese Government requisitioned stocks in order to fuel vessels regarded by the British authorities as unfriendly. Portuguese importers had, however, to turn to the United States for alternative supplies, and it was found possible to exercise a satisfactory degree of control by restricting the grant of navicerts to cargoes consigned to bunkering companies which were prepared to co-operate with the Allies.

Co-operation with the United States was also incomplete at this period in the control of credit facilities. The Bank of England, at the request of the Ministry, issued a notice to banks and bankers in the United Kingdom making it, after 14th November 1940, a condition of the opening of a credit by any British bank or accepting house that

¹ It should be said, however, that officials of the Ministry of Fuel and Power, who have read this paragraph, are satisfied that British bunker control in Argentina and Uruguay was particularly effective at this period, and that there could have been few cases of the bunkering of enemy ships.

the goods to which the credit related were carried on a warrant-holding ship. This was, of course, an obvious means of supporting the ship-warrant scheme, but it was also in the interest of the banks, who would have been ill-advised to finance shipments on vessels subject to the disabilities of non-warrant holders. The Bank also brought these points to the attention of the U.S. Federal Reserve Bank. No further steps were taken at this stage to secure the co-operation of American banks, although it was recognized during the succeeding months that their co-operation would make the system of credit control considerably more effective. In the case of Dominion and Colonial banks it was agreed that the Empire local controls should be left to approve at their discretion purely local credits in respect of goods carried on non-approved ships. This latitude was intended to meet certain difficulties that arose—particularly the dependence of traders, as in Australasia, on Japanese vessels which were non-warrant holders. The controls were, however, asked to warn local banks that in granting credits other than those completely covered by cash they ran the risk of inconvenience or loss as a result of the operations of the ship-warrant system. It appears that local banks did in fact, on their own initiative, and in their own interests, usually refrain from granting credits except against cash.

In the case of insurance, satisfactory arrangements were made with the United States. As in the case of credits and bunkering a refusal of cover by the British market alone would merely have thrown the risk on, and diverted business to, the United States market. An acceptable scheme was, however, evolved whereby British and United States companies agreed to insert in all hull policies, whether marine or war, a warranty to the effect that during the full period named in the policy the owners of the vessel insured were in possession of a ship warrant, or that a certificate permitting insurance had been issued by the British Ministry of Shipping in respect of the vessel. The warranty was included in all marine and war insurance on hull and other shipowners' interests, including port and repairing risks, but it did not apply to vessels of British (excluding Eire), Allied, United States, or Swedish registration, nor to vessels trading exclusively on rivers or inland waters, or within the limits of a port of North, Central, or South America. All other vessels of 200 gross tons or over were, however, included in the scheme, and control of insurance thus became a powerful factor in inducing shipowners to accept ship warrants. Even the Japanese, who had hitherto shown no intention of entering the warrant scheme, began to make inquiries as to the possibility of doing so when they found that they could not insure their ships on the British and American markets. Certain other facilities, such as Admiralty charts and degaussing apparatus, could also be withheld from non-warrant holders.

A further means of pressure was the extension of the use of ships' war-trade lists. These were used to identify vessels with whose records the British authorities were dissatisfied, and accordingly after July 1940 the lists, which had existed since the beginning of the war, were overhauled and extended. There were in effect three lists. (1) The Statutory Listing of ships was achieved by specifying the names of an owner's ships after his name in 'Specified Persons' Orders issued from time to time by the Board of Trade. In order to give the widest possible publicity to the discrimination that was being exercised against certain ships a new 'Ships' Discrimination List' was published which did not include vessels on the existing lists. (2) A Secret Black List contained the names of ships whose names it was undesirable for one reason or another to publish, although they were liable to the same penalties as those on the first list. (3) The Suspect or G. List was made up of ships against which suspicion was not strong enough to justify inclusion in one of the other lists. No disabilities attached to vessels merely because of their inclusion in this list, although their activities were carefully watched. The object of listing was to bring the recalcitrant shipowner to terms, and the inclusion of his name was therefore often followed by his acceptance of the conditions imposed by the Ministries of Shipping and Economic Warfare. It was hoped that in time the warrant scheme would become so well established that the list of warrant holders would constitute a 'white list', exclusion from which would lead automatically to exclusion from all British facilities. The object of the publicity given by publication was, of course, to call the attention of shippers to the desirability in their own interests of boycotting the listed vessels.

In general it can be said that, in spite of the obstacles to the complete acceptance of the ship-warrant scheme, the reception of the scheme during its first twelve months fulfilled reasonable expectations. By February 1941 all the principal Portuguese and Spanish shipping companies owning ocean-going vessels had been included. When the Swiss were allowed to import and export through Genoa, only vessels holding warrants were allowed to engage in the trade; as a result a number of Spanish companies applied for warrants in order to be able to engage in the lucrative shuttle service between Genoa and the Iberian Peninsula. After Greece came into the war the Ministry of Shipping was able to exert pressure on the Swiss to release Greek ships which were on time charter to them. South-American companies did not at first show great readiness to apply for warrants, but applications came in at a good rate later. It was agreed as part of the settlement of the *Siquiera Campos* case (see below, p. 459) that Brazilian firms should apply for warrants for their ocean-going tonnage.

The new arrangements could not be applied with much success in

the Pacific; Japanese ships were subjected, as we have already noted, to a token delay of twenty-four hours under the ship-warrant scheme, but in general the position in the Pacific demonstrated the fact that the warrant scheme as a blockade weapon could make its full contribution only where there was adequate machinery for approval of cargoes and voyages—in other words, where the navicert system was in operation.

(iv)

Contraband Control: Some Outstanding Problems

By February 1941 the compulsory-navicert system was firmly established as 'the mainstay of the blockade', and the ship-warrant scheme was proving a great help in bringing pressure to bear on shipowners in order to achieve the ultimate goal of the contraband control—namely, that everything carried on board (cargo, passengers, or mail) should be approved in London.

Nevertheless, many problems remained. There was undoubtedly considerable justification for American complaints of delay in dealing with applications. The control of mails and passengers under the arrangements of July 1940 raised various problems, both administrative and political. In certain areas such as the Pacific and the Western Mediterranean the three basic measures—compulsory navicerts, ship warrants, and rationing—could not be effectively applied. Even where the system could be regarded as functioning normally there were loopholes, resulting from unmanifested cargo, undeclared mails, enemy passengers, goods carried as ship's stores, bunkers, etc.

It can in general be said that in the Americas compulsory navicerts were introduced without difficulty or incident; even the sanctity of the United States mails was not a stumbling-block. The State Department co-operated unofficially, until by June 1941 the co-ordination of navicerts and American export licences was almost complete. But various difficulties arose. On 18th July 1940 Lord Lothian telegraphed that the State Department had indicated that 'they would view with great disfavour any United States ship being taken to a contraband-control base and that shipping companies might therefore be well advised to take steps to assure that this would not happen'. This was as far as the State Department would go in urging companies to require navicerts; early in August 1940 Lord Lothian telegraphed that the compulsory diversion of a United States ship to Gibraltar 'would be seized as a gift from Heaven by the

Isolationist bloc in Congress as proof that by thus exposing American lives in disregard of American law we were trying to force an incident which would drag the United States into the war'. It was agreed, therefore, that no United States ship would be sent to Gibraltar, but only to Freetown if the necessity should arise. This, however, appeared to be unlikely, for the two main shipping lines had given undertakings to carry only fully-navicerted cargoes and in addition the American Export Line had arranged to call at Bermuda for control of mail and passengers.

Without ever officially recognizing navicerts, the State Department encouraged firms to use them in every way possible; on one occasion when a shipper attempted to invoke the 1916 Shipping Act against the American Export Line, which had refused an item of cargo not covered by a valid navicert, the State Department intervened and the ship obtained clearance without further difficulty and sailed without the consignment. The same spirit of informal co-operation was evident throughout.

It was decided in the case of vessels carrying mails that ship navicerts should be issued only where arrangements were made for the mails to be examined at a suitable British base. On 26th July 1940 Lord Lothian stated that rather than have United States ships diverted to a control base in a belligerent area, the State Department would route all mail for Europe from a northern Pacific port via Vladivostok. They would, however, have no objection to ships calling at a base in the Pacific for examination. They even hinted that if it could be demonstrated by control in the Pacific that British censorship was effective they might send all mail for Europe via the United Kingdom. On 29th July the State Department suggested that the American Export Line should introduce a scheduled call at Bermuda both inward and outward bound, so that mails could be removed there for censorship. This suggestion was welcome in London, but the Ministry also pressed for a call at Bermuda and Trinidad for the Atlantic Clippers and Pan-American Airways for examination of air-mail. On 31st July instructions were issued that ship navicerts should not be granted to vessels carrying mails unless the master gave an undertaking to call at Freetown, Bermuda, or Trinidad. After July 1941 a declaration covering mail became part of the undertaking which the master was required to sign before obtaining a ship navicert.

Difficulties over mail also arose in South America; ships sailing to Portugal preferred to refuse mail rather than suffer the long diversion to Trinidad. Ship navicerts were refused to these vessels on the ground that all such mail could be carried in British ships either to Freetown or the United Kingdom. In September 1940 mails from Brazil were routed through New York and were carried in American

Export Line ships to Europe. Mails destined for Africa went to Cape Town and were examined there, and any mail for Russia and the Baltic went through United States Pacific ports or Vancouver, where arrangements for censorship were made with the Canadian and American authorities. By 30th January 1941 control was based on Bermuda, Trinidad, and Freetown for transatlantic mails, and on Bathurst, Freetown, and Cape Town for African mails. Those going to and from Petsamo went to Reykjavik and thence to the United Kingdom together with mails from Iceland. Eire mails were routed via the United Kingdom and special arrangements were made for controlling mails to and from Portugal and her colonies.

Somewhat similar problems arose over passenger control. After 31st July 1940 ship navicerts were issued to vessels carrying passengers only if the passenger lists were submitted in advance for scrutiny by the British consul at the port concerned. Instructions sent to the consuls were designed to give the security services the opportunity to deal with an enemy agent who tried to travel in a neutral ship; the consuls were, however, given a wide measure of discretion, and it was found in practice that no use was made of this opportunity. In this form the question was primarily one for the Foreign Office and Service departments, but the Ministry became increasingly conscious after the beginning of 1941 that there were certain aspects which concerned it closely. Thus a person of enemy nationality might be engaged in smuggling. It could be argued that although the blockade was concerned with goods and not with persons there were circumstances in which a man's knowledge could be as valuable to the enemy as raw materials; it was, for example, illogical to refuse a navicert for some commodity on the ground that the shipment was intended for the enemy, and yet to allow a technician, who could develop some synthetic equivalent, to travel freely. Similarly it was unwise to refuse a pass for enemy exports and yet allow a German to go overseas, where by his technical skill he could earn money to be used for the benefit of the Reich.

The position in international law was that if a neutral ship were found to be carrying smuggled goods these, and perhaps the ship, could be seized; but a passenger (whether of enemy nationality or not) could not be removed unless he came within certain categories such as enemy agent, or person of military age. It seemed that under international law the British authorities could legitimately refuse to issue a ship navicert unless informed about the passengers; on the other hand if they were so informed, and if the shipping company were prepared to refuse to carry persons objected to, it was doubtful whether they could legitimately reject all enemy nationals *ipso facto* and irrespective of their liability to removal under international law. Some doubt was also expressed in discussions in the Ministry during

January 1941 as to whether there was any serious need to increase passenger control. It was argued that the smuggling of enemy goods was more possible and more likely on the part of persons of non-enemy nationality, and similarly that enemy agents were more likely to be neutrals. The serious dimensions of the problem were, however, emphasized at the end of January by a letter from the British commercial counsellor at Madrid. He said that in a recent instance the passenger list of a Spanish ship, *en route* from a northern port to South America, was found by the British consul at Cadiz to include about 200 enemy nationals, some of them engineers, doctors, and officials of military age; the list nevertheless bore the stamp of the British embassy in Lisbon, and upon enquiry was found to have been stamped by the passport control officer.

The ideal arrangement appeared to be that ships carrying passengers should be treated in the same way as those carrying mails and required to call at a British control base, but it was feared that this condition might create political difficulties. Spanish ships had already ceased to carry mails on the ground that they could not afford the long diversion to a censorship base. The Ministry therefore proposed that nationals of enemy or occupied territories might travel in vessels claiming ship navicerts only if application for authority to travel in such a ship had been made to the British consul and approved, after reference to London if necessary. Permission would only be given to refugees and persons who could provide a satisfactory reason for wishing to travel. This was accepted in principle at an inter-departmental meeting on 7th March 1941. The Admiralty agreed to the proposals on condition that control was imposed through the ship-warrant scheme and would not entail diversion. The State Department was unofficially informed and 'their reaction was entirely favourable'. Control was therefore introduced, on these lines, as from 23rd June 1941, in the case of ships leaving the navicert area. For ships sailing into the navicert area conditions were, in principle, the same.

It was hoped that many passengers who would not necessarily be liable to removal in the ordinary way would be prevented from travelling. To relieve the United States shipping lines of the responsibility of refusing passengers it was arranged that anyone travelling to Lisbon should require a Bermuda visa. The Spanish lines also agreed to call at Bermuda on the eastward run for the same reason, but the Portuguese still refused to put in at any control base, though they agreed to accept the British conditions concerning passengers. At the end of July 1941 an attempt was made to impose an even stricter control over the traffic of enemy subjects and mails across the Atlantic, by requiring that all ships carrying passengers should agree to call at a British control base as a condition of the grant of a ship

navicert. The State Department raised no objections and nor did the American Export Line, but there were difficulties in Spain and Portugal. The question was still under consideration when America entered the war in December 1941.

(v)

Control of Enemy Exports

After Italy's entry into the war the Iberian Peninsula became the main channel for the surreptitious export of goods from Germany and German-controlled areas on the Continent, and considerable extensions of the British regulations became necessary (see p. 435). Export control was, as usual, unpopular with the overseas neutrals, and the British authorities found themselves under considerable pressure to relax the control on political grounds. There was some resentment in the South American states, deprived of their customary imports from Europe, and the United States, sensitive to the ideal of Pan-American unity, was reluctant to display sympathy with British policy. No control of exports from Germany to Russia was possible, and there was a danger of minor leaks through Finland, Sweden, and the Balkans. Exports from Vichy were a particularly delicate problem. Much was, nevertheless, achieved.

The need for a continuance of 'enemy export' control after the German victories was not seriously challenged, although it was sometimes asked whether the resulting damage to German economy would—in view of the additional resources which the enemy now controlled on the Continent—be sufficient to justify the consequent friction with neutrals. The Ministry's view, which was no doubt the right one, was that Germany, despite her control over continental Europe, could never be entirely self-supporting; she would need to secure purchases from overseas either by exporting or by payment in gold or foreign currency. Her gold reserves were small and fortunately the amount of gold looted in occupied territories was smaller than might have been feared. On the other hand her foreign currency reserves, built up largely in the period when enemy-export control was not in operation, were considerable in relation to her immediate needs. Since the outbreak of war Germany had issued no figures either of imports or exports, and still less of gold or foreign currency reserves. Moreover, up to the end of 1940 the Ministry had observed no signs of deficiency. It believed, however, that her needs would grow larger as her stocks were exhausted, and with the pressure of war her capacity to export even to overland markets would tend to grow less. Any accumulation of foreign currencies out

of which she could pay for overseas imports would, therefore, become increasingly valuable to her, and the right course seemed to be to regard her relatively comfortable position as a reason for increased efforts at restriction rather than for any slackening of the control.

It must be remembered that this weapon was one which had hitherto been used somewhat sparingly, mainly because of neutral susceptibilities. The problems outstanding at the time of the German offensive in April 1940 have already been summarized (pp. 122-3). Some of these problems had been simplified by the canalizing of most of the flow of German exports through the Iberian Peninsula. Moreover, the number of applications for exemption was bound to decrease with time.

Mr. Dalton announced on 30th July 1940 the decision to treat all Metropolitan France, as well as Algeria, Tunisia, and French Morocco, as enemy territory for the purposes of contraband and enemy-export control. French Somaliland was designated enemy territory on 9th September 1940. Other countries falling into the same category were Rumania (15th February 1941), Bulgaria (5th March 1941), Hungary, Yugoslavia, and Greece (excluding Crete) in April 1941 (8th, 18th, and 30th respectively); Syria on 27th May 1941. In addition to the existing reprisals orders of 27th November 1939 (Germany) and 11th June 1940 (Italy), a supplementary order was made on 17th July 1940 making clear the position of aircraft and goods carried therein in relation to the earlier orders. The Reprisals Order of 31st July 1940 made ships sailing from European ports, or from certain Atlantic islands, or from certain neutral ports in North Africa, liable to seizure unless they carried certificates of non-enemy origin, for all items of their cargo. All uncertificated items would also be liable to be seized. This may be regarded as the complement to the compulsory navicert system.

During the second half of 1940 the system of control was gradually extended; between 15th July and 31st December 258 applications for exemption from enemy-export control were considered, and exemption was granted in 103 cases and refused in 121, the remainder being otherwise disposed of. The cargoes of fifty-one ships were reviewed, and seizures ordered in fifteen. Examination continued at much the same rate in 1941. This respectable volume of business did not mean that the system of control was complete, but the existence of the reprisals orders was in itself a deterrent as it made neutral shippers reluctant to accept enemy exports.

Vichy France was, of course, the biggest headache; her geographical position and her peculiar standing after her defeat made her export problem particularly confusing. It was decided in July 1940 that the new orders should be applied with discrimination as far as exports from unoccupied France were concerned, and in practice

very little control was exercised over ships outward bound from Marseilles. The general position of French shipping after the Franco-German armistice is described elsewhere (Chapter XVI). No serious attempt was made before September 1940 to establish any regular service between Marseilles and ports outside the Mediterranean; after this, however, an increasing number of ships was reported to be leaving Marseilles with cargoes for Casablanca, Dakar, Martinique, and, directly or indirectly, for North and South America. The number rose from one in the period July–September 1940 to forty-five in December, while by the end of January 1941 the total of ‘vessels passing uncontrolled through the Straits of Gibraltar’ was given as thirty-six passing west to east, and thirty-five east to west. The French ships were usually escorted by an armed trawler, a sloop, or a destroyer, and they followed Spanish territorial waters as far as possible. The Royal Navy could not, in view of the state of the Battle of the Atlantic, interfere with these convoys, and it did not interfere even with unescorted vessels if they were outward bound. The leak in the blockade was equally unfortunate whether the goods were of French or German origin. The Ministry was able to trace shipments or proposals for shipment of some five consignments where application for permission to export had been refused, and was concerned lest the ease with which the French had defied the blockade should be copied by other governments.

After Mr. Dalton had protested to the First Lord of the Admiralty in January 1941 against the ‘incomprehensive distinction’ between outward- and inward-bound vessels there were some isolated interceptions. Two French ships, the *Jean L.D.* and *Rose Schiaffino*, were sent into Simonstown and Gibraltar respectively under armed guard in January. The ships had sailed from French ports in German-occupied France, and it was decided that their cargoes should be placed in prize as enemy exports, while the ships themselves were liable to seizure under Articles 2 and 5 of the Reprisals Order in Council of July 1940. Two further French ships, the *Lorient* and the *P.L.M.13* were brought into Gibraltar and treated in the same way in February. Occasional interceptions of outward-bound French vessels continued. On 13th May 1941 the French s.s. *Criton*, which was on a voyage from Toulon to Madagascar via Casablanca, was taken into Freetown and found to be in ballast except for a small consignment of flags and naval stores; she was, nevertheless, requisitioned as a reprisal for detention by the French of a large number of British merchant vessels. On 19th May another French ship, the s.s. *Bourbonnais*, bound from Marseilles to Madagascar, was also taken into Freetown; her 320 tons of cargo were considered to be of enemy origin and were detained, and the Enemy Exports Committee agreed that the ship should be requisitioned or seized, according to the wish

of the Admiralty. (Eventually both the ship and its cargo were directed to be seized.) On 2nd June the French auxiliary schooner *Izarra* arrived at St. Johns, Newfoundland, with an armed guard on board; its cargo consisted of 400 tons of salt loaded at Bayonne in occupied France, and both cargo and vessel were placed in prize on the ground of enemy origin and ownership. But all this made little impression on French shipments. The breach in the blockade received full publicity in March 1941, when Admiral Darlan declared that the whole French mercantile fleet was now organized to bring food to France, and that services between unoccupied France and the French colonies were now on a peacetime basis. The Ministry, which had been calling attention to this fact since the previous November, estimated in May 1941 that there were 537 ships of some 2,130,000 g.r.t. (including British and Allied vessels) under Vichy control, and that if the Straits of Gibraltar could be sealed some 283 of these ships, with a tonnage of 1,120,000 tons, would be confined within the Mediterranean.¹

Exports of enemy origin might also leave Europe through the Iberian Peninsula, and various steps were taken after the fall of France to tighten up control by British consuls in Spanish and Portuguese ports. The goods might be of German, Italian, French, Swiss, or even Swedish origin. There was also a complex of problems connected with refugees and non-refugee travellers and their belongings.

It proved very difficult to keep track of exports leaving Italy for the Americas via Spain and Portugal. Swiss exports also provided some difficult problems. The Enemy Export Committee worked normally on the rule that certificates of origin should not be issued when goods would pass through enemy territory before reaching the port of shipment. But Switzerland was in a unique position: though not enemy-occupied she was enemy-surrounded, and if she were prevented from exporting her goods overseas she would seek additional markets in enemy territory. Swiss exports were, therefore, not made subject to the normal rule. The danger thereby created that goods of Italian, German, or French origin might be passed off as Swiss, and as Swiss exports by way of the Iberian Peninsula, had accordingly to be closely checked. Conditions to this effect were laid down in November 1940. The committee agreed in December, as the result of an inquiry from the British minister at Berne, that it was slightly preferable for Swiss goods consigned by overland routes through Spain and beyond to be routed through unoccupied France, but the minister was to be left with absolute discretion as to the route to be used. The committee was not prepared to authorize the issue of certificates of origin for Swiss consignments through Italy to the

¹ These questions are discussed more fully in Chapter XVI.

Balkans and the Near and Far East, on the ground that if facilities were given for Swiss exports overland eastwards, it would be difficult to refuse permission for similar traffic westwards from Balkan states to Iberian ports for shipment to the Americas. Such traffic would bring profit to the enemy through transport charges.

Sweden provided a somewhat similar problem. After the German occupation of Norway and the British blockade of the Skagerrak, Britain had allowed Swedish exports to be sent through enemy territory for a trial period for shipment from Dutch and Italian ports which at the time were still neutral: this concession had been subject to special safeguards to avoid substitution in transit. In September 1940, when export from Italy and Holland had become impossible, the Swedes asked that a similar arrangement should be made for Lisbon. By this stage, however, the Petsamo route was supposed to be open and as the long haul to the Spanish frontier would bring far greater sums to the enemy for transport charges than had been contemplated in the shorter run, it was thought that the request should be refused. Then on 14th October, when it was known that the Finns had established a ban on exports via Petsamo and that the Swedes were doing their best to get it removed, it was decided that the Swedish request to make a trial shipment via Lisbon should be favourably reconsidered, provided that all facilities were given to British representatives in Stockholm, Lisbon, and New York to check departure and due arrival of the consignments. The committee was as usual greatly concerned about a very strict supervision—'subject to all possible precautions being taken'.

A further problem was the treatment of refugee and non-refugee travellers and their belongings. After June 1940 the refugees of various kinds already in the Iberian Peninsula were joined by others from France; and the shipments of refugees' effects, which had previously taken place from Holland, Belgium, and Italy, were now largely transferred to the peninsula. A natural desire on the part of British officials to assist the unfortunate had to be tempered by awareness of the many possibilities for smuggling in baggage, and the possible use by the enemy of these refugees, or agents masquerading as refugees, to serve his ends. In March 1941, for instance, the committee considered the case of a Polish refugee from France who had arrived at Lisbon with thirty-seven cases of essential oils which he hoped to sell in New York. The British consul-general in Lisbon thought the man and his application genuine; but the Ministry was suspicious, and remarked, 'We now have considerable experience here of the tricks of the essential oils trade—and must have more to go on than we have now, before we can admit that the transaction is not an enemy export'. A similar case was that of two Argentine citizens who said that they had converted all their money

in French francs into perfumes as the only means of getting francs out of France. There was in all cases the possibility of payments to the enemy by way of storage and/or transit charges. In November 1940 it was decided that the best course would be for the consuls to arrange some superficial search of all containers, with an occasional really thorough search. The consulate-general at Lisbon was not, however, satisfied with these arrangements. Export passes were authorized by the Ministry usually with the proviso 'subject to the usual search' or 'subject to exhaustive search'; during the four months preceding 28th May 1941, there had been nearly 1,000 applications, the subject matter varying between a couple of suitcases and several liftvans of furniture, and the lack of time—and, much more important, of expert staff—rendered the proviso of 'exhaustive search' a farce.

One problem which now called for greater definition was that of enemy ownership. Under the reprisals orders of November 1939 and July 1940 all goods of enemy ownership were liable to seizure, but the policy of the British Government had hitherto been to take only actual exports from Germany and Italy, or goods closely analogous to such exports (such as enemy-owned goods exported from a European neutral). There were, as a result, several types of transaction in the autumn of 1940 which were liable to, but which had not yet been subjected to, enemy-export control. These were goods produced or owned by an enemy concern passing (1) from the American continents to Europe; (2) between the American continents and Asia; (3) between the American continents and Africa; (4) between North and South America. The machinery for dealing with (1) already existed in the compulsory-navicert and ship-warrant systems, but considerable practical difficulties existed in the other three cases.

Just after the fall of France there was a curious piece of German propaganda which badly overreached itself. Promises were made by Germans in South America to deliver German goods in September and October 1940, and they were said to have been so confident of victory that they had agreed to put up, if these were wanted, cash guarantees of delivery. The risk was not very great, for the volume of orders was not likely to be large—Latin-American firms were often anti-Nazi, and would in any case hesitate to take promises of delivery at their face value. Nevertheless there was evidence during July 1940 that German-owned firms in Argentina, Brazil, Mexico, and other South American and Central American countries had been quietly placing orders in the United States for just such things as these firms had agreed to deliver to Latin America—chemicals, metal products, and certain other merchandise—stipulating that deliveries were to be made by early September. The *New York Times* of 27th July quoted the Secretary of the American Exports Managers' Association as say-

ing that he had held up two orders from a Mexican source on the suspicion that they had been placed to cover items on which the Germans had been bidding for business under the cash guarantee system. The assumption was that complete victory had not crowned German arms quite speedily enough, and that the Germans were hastily buying United States goods to save their cash guarantees. The story was well publicized in the American press, and formed the subject of a B.B.C. commentary to Latin America at the end of July. The Ministry at once took up the possibility of intercepting the goods as they passed from North to South America. But any direct action was found to be impracticable. The Royal Navy was still not allowed, under a rule issued to it in October 1939, to interfere for any reason with a ship belonging to any of the American republics while in the eastern part of the Pacific or the western part of the Atlantic. A further difficulty was the practical impossibility of effective search, for the goods would presumably not be bulk consignments; the intelligence organization capable of dealing effectively with such a search, detecting the consignment and then tracing it to a particular ship, would have to be very elaborate. The idea was, accordingly, abandoned.

But the case called attention to the problem of enemy ownership, and the committee agreed on 6th September 1940 that transactions under which Germany bought goods and sold them in South America were practically equivalent to a direct export from Germany, since she kept her American clients and implemented promises already made. In the absence of United States goodwill, however, it seemed best not to take any steps to control this trade for the time being. In the case of German trade between Asia or Africa and the American continent it was recognized that here too the practical difficulties of direct control were very great. Naval interception of extra-European trade was impossible, and control could be exercised only over such ships as called voluntarily at British or Allied ports. Neutral ships could evade control by ceasing to call at such ports, and the use of alternative ports, although causing the neutrals some inconvenience, would make the control even less complete and deprive British ports of revenue to no purpose. Moreover, the enemy exporter would often be able to part with the property in the goods prior to export in such a way as to make it difficult to claim that they were enemy-owned at the moment of seizure. It was decided, therefore, that the most hopeful course would be to seek to secure, by means of the ship-warrant system, that shipowners did not carry goods which were consigned to or from firms on the Statutory Lists. Later, on 7th March 1941, the Enemy Exports Committee was informed that Mr. Dalton had no longer any objection in principle to the exercise by the committee of the rights conferred by the Reprisals Orders-in-

Council against goods which were enemy property, but which, by reason of their not being exported from enemy territory or countries near enemy territory, could not be regarded as being 'enemy exports' in the ordinary sense of the term. The prior consent of the Foreign Office was, however, to be sought before action was taken in any cases involving goods travelling between North and South America.

The outstanding 'enemy export' case in this period was that of the s.s. *Siquiera Campos*, which sailed from Lisbon for Brazil in November 1940 loaded with war material from Germany. The application for exemption of this cargo had a long history. Orders had been placed with Krupps a few years before the war as part of a programme of reorganization of the Brazilian national defences, and there had been various payments to Germany. At no time, however, had any documents been submitted to the Ministry, and the Brazilian embassy in London admitted that payments made were deposits on account of the whole order—payments in full of the specific items had not been made. Previous shipments had been made—in September 1939, November 1939, April 1940, and May 1940—the last allowed by the Ministry with extreme reluctance and only on the promise that no further applications would be made and that the embassy would recommend the dismissal of German technicians from key Brazilian posts. Application for a fifth shipment to complete the order was, however, made in July 1940, and was pressed on the British minister in Rio by the Brazilian Foreign Minister. The Germans were prepared to ship the guns from Lisbon. The Brazilian Government appeared to be somewhat afraid of the Brazilian Army, many of whose senior officers were strongly anti-British and pro-Nazi; this had been the case before the collapse of France and was probably more so now. The Enemy Exports Committee at the end of July refused to grant the application, and the refusal was repeated on 2nd and 12th September. The matter again came up for discussion by the committee on 22nd October 1940; the reason now given was that the threat at Dakar had decided the Brazilian Government to put into a state of defence the airfields at Natal and elsewhere. It did not appear that it was ever seriously contended that the arms had been paid for; the goods had left Berlin two days before General de Gaulle arrived at Dakar; the effect of granting an exemption would be deplorable both in Brazil and other South American countries. It was decided, therefore, that if the ship sailed for South America it should be brought in and examined—a signal to this effect was sent by the Admiralty at the request of the Ministry.

News soon came from the British consulate at Lisbon that the *Siquiera Campos* was loading the arms; a ship navicert was refused and a certificate of origin for eighty cases of machinery of German origin was also refused. The Brazilian Government instructed the ship to

sail from Lisbon on 17th November; it did so and was intercepted and taken to Gibraltar. Unfortunately this firm action could not be maintained. The interception and diversion of the ship were much resented by the Brazilian Government which persuaded the United States Government to support its request for exemption on the grounds that the arms were required for the defence of the Western Hemisphere and, in particular, for the aerodrome at Natal. Under strong pressure from the United States Government, it was decided to release the ship and cargo, after nearly a month's detention at Gibraltar. The British Government did, however, insist on counter-concessions; the Brazilian Government agreed not to obtain any more German goods, to immobilize enemy ships in Brazilian ports, and to bring the large fleet of the government-owned Lloyd Brasileiro Shipping Company into the ship-warrant scheme. This was the first time that concessions over enemy exports had been used to try to obtain concessions from a neutral government in blockade matters, and it was felt that if the Brazilian Government carried out the terms, the bargain might prove well worth while.

This case led to a general review of the position, and revealed considerable differences of opinion between M.E.W. and the Foreign Office. The Ministry believed that the danger of friction with the United States over this ship had been increased by the failure of the Foreign Office to explain the case in good time to the State Department. The Foreign Office, exposed to recriminations from South America, and hoping to avoid friction with the United States—'a luxury which of all others we cannot easily afford'—desired a larger measure of flexibility in enemy-export control, if that were possible without sacrificing principle. A member of the Enemy Transactions Department of the Ministry, looking back over the earlier working of the committee, pointed out that major concessions made to Italy, Japan, and Iran had respectively helped Italy to prepare herself more effectively for attack, had made no difference to Japan's hostile policy, and had constituted, in the case of Iran, 'a surrender to blackmail'.

The dispute about the *Siquiera Campos* lingered: a further consignment of German arms in the s.s. *Bage* was unloaded at Lisbon. The Brazilian Government made no direct application to the British Government, but got the United States to intervene. The first reaction was a refusal, but in consequence of the subsequent strong representations of the State Department, and in view of its offer to send a ship, it was decided to allow the arms to proceed without any compensatory concession. The delivery of the *Siquiera Campos* cargo was soon followed by large Brazilian payments to Berlin.

The other South American states also made various applications for exemption for the export of enemy goods (largely machinery);

for instance, the Uruguayan Government had planned a large-scale hydro-electric works (Rio Negro) and had applied for exemption for German machinery in May 1940. The committee had objected on the ground that while it wished in principle to be agreeable to the Uruguayan Government, the president of those works and the Vice-President of Uruguay were pro-Nazi. When the committee discussed (March 1941) the matter of compensation to the other South American countries for the sailing of the *Siquiera Campos*, it was considered difficult to find suitable compensation for Uruguay owing to the large sum involved in the Rio Negro scheme, and after further consideration the application was again refused in April 1941 (though the committee referred the matter to the Foreign Office). Uruguay had also applied for spare parts of electric meters, and though there was no proof of payment and the order might have been given after the Reprisals Order-in-Council, it was not thought worth while irritating the Uruguayans about it—'it would be a great pity to annoy the most friendly of the South American states with a pinprick'. This state appealed also for telephone parts (March 1941) without supporting documents, and the Financial Pressure Department of the Ministry gave the opinion that 'in view of the recurrence of these requests which bring financial benefit to the enemy', a refusal should be given.

In October 1940 the Argentine Government renewed an application previously made in March, April, and May 1940, for exemption for a powder-manufacturing plant from Germany. This was again refused in the absence of documentary evidence that (as claimed) seventy-five per cent. of the price had been paid to Germany before the war. The application came up again on 4th December 1940, this time with receipts as supporting evidence; but as earlier experience had shown that German suppliers seemed to consider it normal to produce false receipts, evidence of payment from a neutral bank was required. The exemption was eventually allowed in May 1941.

Exemptions were allowed to the Iranian Government for German goods in an Italian ship in refuge at Assab; this decision was due to Foreign Office pressure on political grounds. On the strength of this example the Iranian Government hoped to secure permission to import arms and railway coaches from Germany via Iraq (it would, in any case, have been difficult to prevent these particular exports). On political grounds also export passes were issued for some consignments of olive oil of Turkish origin in an Italian ship in refuge at Las Palmas. The Portuguese Government was allowed to transport by sea artillery material ordered from Italian factories before the war, chiefly because the Foreign Office had before the war practically advised the Portuguese Government to buy in Italy owing to the inability of Britain to supply.

More important than these was the case of the s.s. *Nagara Maru*. We have seen that the British Government had agreed before Italy's entry into the war to facilitate the passage of certain quantities of German machinery and manufactured articles, said to be of vital importance to Japan's national economy and to have been bought and paid for with Japanese funds in Germany before the outbreak of the war (see p. 398). It was understood that goods were to be shipped in Japanese vessels already loading in Italian ports. There were eight ships altogether of which some had already sailed, and the *Nagara Maru* was understood to be sailing with only a small quantity of German material on board; but the Japanese Government intimated its desire that certain Italian goods which were urgently needed for Japan's defence programme should also be shipped in this vessel—seven items were specified on 19th July and a further three on 30th July. On 9th August the government reluctantly agreed to allow the passage of the ship from Genoa with its German and Italian cargo, on the very clear understanding that this would be the last occasion on which German and Italian goods would be allowed to proceed to Japan by sea. The ship put in at Naples and was delayed there by Italian authorities; on 27th August further cargo was loaded, including machinery and Italian mercury to the value of nearly two million dollars; this had apparently been ordered and paid for after British consent for the ship to sail had been received. The Japanese embassy was informed that this created an entirely new situation and the committee's suggestion (approved by the Foreign Office) was that the extra quantity of mercury should be placed in prize when the ship called at Colombo. When the ship was detained on its arrival at Colombo, on 23rd September, the master protested strongly at the proposal to have the additional cargo unloaded, and his objection was reinforced by a letter from the Japanese ambassador to Mr. R. A. Butler. The Foreign Office agreed that the Ministry must insist on the unloading of the additional cargo. The ship was detained at Colombo for some weeks, during which time the Japanese offered to deposit part of the value of the mercury with the British authorities. In the end it was agreed that as soon as the mercury (350,000 kilogrammes) had been removed, the ship might sail without the offloading of certain other items of lesser importance (to which, however, there was equal objection)—the latter in response to the earnest plea of the Japanese Government. The Japanese Minister for Foreign Affairs expressed his appreciation of the accommodating attitude shown in the case of this vessel; apparently he particularly appreciated the offer that the mercury should be stored free of charge. The Ministry persuaded itself that this was 'a brilliant illustration of the value of tempering flexibility with firmness'.

(vi)

The Ministry of Economic Warfare

All these developments left their mark on the structure and functions of the Ministry during this period. The fall and rise in the establishment figures is significant: the total fell from 1,506 in June 1940 to 915 in September, and then rose steadily to 1,209 in June 1941.¹ This tells a story of perhaps over-hasty reduction of staff after the fall of France, when it was still not clear that the great reduction in the volume of office work connected with the traffic to adjacent-neutral territories would be compensated by a corresponding increase in work under the new arrangements for control at source. The reductions were heaviest in the junior grades of the staff—such as the typing pool—and it was here, too, that the main increases took place after the end of 1940. All grades were, however, affected.

The basic structure remained unaltered, with an operational and an intelligence side, under two Directors (Lord Drogheda and Mr. N. F. Hall respectively), with Sir Frederick Leith-Ross as Director-General. The Minister was Mr. Hugh Dalton. In March 1941 Mr. Hall went to the British embassy in Washington as Minister in charge of economic-warfare questions, and he was succeeded at the Ministry in London by Colonel C. G. (now Sir Geoffrey) Vickers. Some of the subdivisions of the Ministry changed names from time to time, but in general during this period the 'operational' side consisted of three Contraband and Neutral Trade Departments, together with the Records and Statistics, the Establishment, and the Legal Departments; while the 'intelligence' side was made up of six departments: Commodities, Enemy and Occupied Territories, Enemy Transactions, Services Co-operation, Oil, and Shipping.

The Contraband and Neutral Trade Departments combined the functions which in the first period of the war had been carried out by the Foreign Relations and Prize Departments. They were organized in geographical sections covering between them all neutral countries, and were, in general, responsible for submitting cases of contraband consignments or enemy exports to the Contraband or Enemy Exports Committees for decision. They also worked out rationing schemes, and dealt with all negotiations with neutral governments on economic-warfare matters; for this purpose the Ministry continued to correspond directly with the British missions and consulates abroad, obtaining the concurrence of the Foreign Office when political questions

¹ 1940: 1,506 (June), 1,153 (July), 933 (August), 915 (September), 921 (October), 930 (November), 968 (December); 1941: 1,002 (January), 1,042 (February), 1,107 (March), 1,160 (April), 1,197 (May), 1,209 (June).

were involved. In short, these departments took all executive action in connection with contraband control and with the authorization or limitation of imports into European neutral countries.

They had also an 'Allied Trade and Export Licence Control' Section which dealt with all export licence questions in the United Kingdom and in the Allied Empires, and with co-operation with the Allied Commonwealth authorities in economic-warfare matters. This section also had representatives in the Export Licensing Department of the Board of Trade, which scrutinized applications for export licences from the United Kingdom to dangerous areas.

The Records and Statistics Department was responsible for all 'blockade intelligence'—that is, for all information required for the interruption of traffic between the enemy and neutral countries. It had four sections: Statistics (responsible for recording all available information about the movement of trade to and from the dangerous areas); Status Intelligence (collecting information about firms in neutral countries suspected of traffic with the enemy, or other undesirable activities); Ships' Records (recording the movements of all merchant shipping engaged in voyages which interested the Ministry); and Censorship (which received, classified, and distributed to the interested quarter all censorship information reaching the Ministry).

The other 'operational' departments explain themselves. It may be noted that the work of the small Legal Department differed markedly from that of the First World War, when there was considerable litigation in the Prize Court, and, on appeal, in the Privy Council, and when the Crown was mulcted in damages on a number of cases for unjustifiable seizures. In this war it had been found possible to avoid contested litigation in the Prize Court, with the result that no decisions were given, during the period covered by this volume, against the Crown. Complex and novel questions in international law continued, nevertheless, to arise.

On the Intelligence side the major development was the setting up of the 'Enemy and Occupied Territories' Department (E. & O.T.D.). Until the fall of France the two sections, E.C.I. and N.C.I., had remained distinct, although they came under one head and had certain overlapping interests. E.C.I., for example, when considering enemy intentions, had had to weigh, among other things, the advantages and disadvantages to the enemy's economy of his occupying the territory of one or more of his 'adjacent-neutral' neighbours. The work of N.C.I. had therefore come to include the provision of information needed to appraise the possible plans of the enemy. After the fall of France, Germany and the occupied and satellite countries had to be considered as a unit, and accordingly E.C.I. and N.C.I. were replaced by E. & O.T. As increased territory had to be covered, it was

very desirable to introduce greater functional specialization at the same time as Italian, Scandinavian, and other experts were absorbed into the new structure. Difficulties of recruitment and grading held up this development, however, until well into 1941; the grading system made it impossible to give the senior specialist officer a higher rank than Principal, and this in turn made it impossible for a time to bring in additional specialists, who, if they were men of the requisite technical knowledge and experience, would not be willing to accept posts of a lower rank and pay than that of Principal—the only ones available. Means were not found to bring in the additional experts until just before Mr. N. F. Hall's departure for Washington. At the same time as E. & O.T. Department was set up, intelligence officers out of the old N.C.I. were attached to the Neutral Trade Departments dealing with the countries in which they were specialists—Spain, Portugal, Sweden, Turkey, and so on. Their principal duty was to watch the working of the war-trade agreements, and their day-to-day work was nearer to 'blockade' than to 'economic warfare' intelligence. This was probably a mistake because they became more and more involved in the sections to which they were attached, their superior officers had neither the leisure nor the experience to direct their intelligence work, and they themselves did not have time to study such wider problems as the advantages and disadvantages to the enemy of occupying their territories in whole or in part. In some cases—particularly Turkey and Russia—close contact was maintained with E. & O.T.D., but in others it lapsed. The general conclusion which can be drawn from this experiment is that the old principle that intelligence work has its own technique, and that intelligence officers must be under their own specialist directing staff, is a sound one.

The titles of the other Intelligence Departments more or less explain themselves. 'Commodities' collected and studied all available information about commodities which were important from the point of view of the blockade—sources, movements, stocks, values, etc. The Shipping Department administered the ship-warrant system, and centralized most of the aspects of economic-warfare policy which impinged upon the shipping world. It worked in close and constant contact with the Ministry of Shipping and the Admiralty. Enemy Transactions Department was never an intelligence unit in the strict sense; it was the earlier Financial Pressure Department under a new name, and its objects were to prevent the building-up of enemy external financial assets, to destroy such assets as still existed, and to prevent their being used either by way of payment for propaganda, sabotage, purchase of contraband goods, or for other activities on behalf of the enemy. Its most important function at this period was perhaps that of keeping in the closest possible touch through the

British embassy in Washington with the United States Treasury, and of supplying the latter with information regarding the steadily-extending United States freezing orders. But it had other functions; it controlled financial contraband and financial enemy exports, and it dealt with the financial aspects of Statutory List work, including the presentation of insurance cases for the Black List Committee and the application of insurance as a sanction on shipping control. The Oil Department was a small one, which was charged with studying all aspects of the petroleum situation, both within and outside the German area.

An important and growing side of the Ministry's intelligence work was its service to users outside the Ministry. An early sign of this development was the use of its appreciations for political-warfare purposes from about August 1940. It also supplied the Board of Trade with particulars of the German clothes-rationing procedure in preparation for similar rationing in Great Britain. Its chief usefulness in this connection was, however, in supplying the fighting Services. We have seen that in the first months of the war there was competition rather than collaboration between the intelligence organizations of the Ministry and of the Service Departments, and the transition to collaboration can perhaps be dated from a meeting of Directors of Intelligence called in April 1940 by General Ismay to discuss the work of the different organizations, with special reference to German manpower. Shortly afterwards Mr. N. F. Hall was appointed a member of the J.I.C., and the status of the Ministry in this matter was confirmed by the Cabinet Office. This was satisfactory as far as it went, but during the summer and early autumn of 1940 it became clear that the contact was by no means complete. Because neither side knew what matters were being worked on by the other, it frequently happened that the Ministry would be presented at a late date with more or less completed papers written by the Service intelligence sections, and all that it could do in such cases was to make hurried, and often, therefore, unsatisfactory, comments. Before the end of 1940 the Ministry offered office space to the Directors of the Service Intelligences in order that they might second officers who would take a specific part in the day-to-day work of the Ministry's Intelligence Departments. This was fairly readily agreed in principle, but the appointment of a new Director of Military Intelligence and the expectation of changes in Air Intelligence left the matter hanging fire for some months. All this was pointing to the final recognition of the Ministry as the essential source of economic intelligence for the Service Departments, and it was not until the summer of 1941 that effect was finally given to this development. But by June 1941 the Ministry had a well-organized Services Co-operation Department which represented the Ministry on all inter-Service committees (such

as the permanent staff of the Joint Intelligence Committee, the Bomb Targets Committee, and the weekly meetings of the Service German sections), prepared papers for these committees, and distributed Intelligence appreciations, including those from the fighting Services, throughout the action sections of the Ministry itself.

Finally, we must notice that there were, once again, the old complaints of delay in the working of the contraband-control procedure, and partly for the old reasons. Control at source meant that much new administrative machinery had to be hastily set up; it took time to run it in, and to train or retrain staff; there was the usual tendency to operate cautiously until experience had shown where relaxations and exceptions could safely be made. No doubt the machinery was, in the first stages, too cumbersome. It is fair to add that the day raids which London had to face at this time were partly responsible for delays. With the siren sounding three or four times a day the normal machinery of passing navicert applications round for comment proved quite unworkable for some weeks. In September (1940) the Washington embassy reported growing annoyance among United States shippers. The length of time taken to answer renewal applications—sometimes as much as a month—was an additional grievance. Emergency measures taken in the Ministry during the raids, in the form of daily meetings of all interested sections, brought about some improvement, and the American difficulties were largely overcome after April 1941, when the period of validity of navicerts was altered to coincide with the four quota periods. An important organizational development was the setting-up of the Permits Committee, which held its first meeting on 21st August 1940 under the chairmanship of Sir Edward Benthall. The new and wider interests involved in the whole conception of control at source had necessitated almost daily *ad hoc* meetings between members of four departments—Commodities, E. & O.T., Neutral Trade, and Records—and the new committee accordingly met the need for regular consultation to ensure that 'policy with regard to the quantities of goods permitted to enter may be automatically and expeditiously co-ordinated'.

CHAPTER XIV

CONTROL AT SOURCE: THE AMERICAN REACTION

WHEN the Ministry of Economic Warfare talked about control at source it meant, for the most part, control in the Americas, and no one had any doubt that the whole success of the new plans depended on the attitude of the United States. We shall, therefore, follow our examination of the new contraband-control ideas with an account of how the United States Government reacted to the situation after the fall of France.

American support for British economic-warfare policy could be both passive and active, and in the first case, at any rate, the Ministry had much to be thankful for during this twelve months. The Rist-Ashton-Gwatkin mission had brought about a greatly improved understanding in Washington of the aims of British blockade policy, and the friendly, but more or less negative, co-operation which the State Department had given since March 1940 continued during the summer and autumn. This attitude of friendly acquiescence was certainly of great help when compulsory navicerting was introduced. But, of course, the Ministry wished the American Government to go further, and from the middle of May was pressing it to co-operate fully in the economic blockade by export control and other devices. Stage by stage the United States export licensing list was, in fact, extended during the next twelve months, and in certain isolated cases—particularly oil—the Administration took the initiative in limiting supplies to Europe. But to the Ministry this development was all too slow, and it was not until the early summer of 1941 that really far-reaching American plans began to emerge.

(i)

The United States Defence Programme

What the Ministry desired was that the United States Government should recognize that the cutting off of all possible forms of economic assistance to the Axis was necessary to Hemisphere defence, and should itself set up an effective system of control at source as an integral part of its defence plans. But in this, as in other spheres, the Administration was too concerned at this stage to place its defensive

purpose above isolationist—and indeed Axis—suspicion to be able to introduce measures aimed directly at the denial of supplies to Japan and Germany.

Events certainly moved rapidly at first. President Roosevelt ordered the freezing of all Danish and Norwegian assets in the United States on 10th April, of Dutch, Belgian, and Luxembourg assets on 10th May, and of French on 17th June. At the beginning of 1940 he had submitted a budget for the fiscal year beginning 1st July 1940, and his allocation of \$1,840 millions for national defence was still being trimmed by Congress when on 16th May he called for a greatly increased expenditure. In a special message to Congress he justified this increase on the ground that the country must be in a position to meet and repel possible invaders before they reached their objectives in the Americas. This emphasis on Hemisphere defence, and an informal invitation to Lord Lothian to submit suggestions for American help to the Allies, led to proposals being sent from the Ministry to Washington on 19th May for closer co-operation between the United States and the four Allied empires. Four specific suggestions were made for immediate action by the United States Government. These were:

- ‘(a) Arrangements to block all German balances in United States of America. It seems illogical to block balances of victims of German aggression and yet to leave the aggressor free use of funds at his disposal;
- (b) arrangements to prevent the sale of bearer securities shipped from Europe except under licence, so as to safeguard the market against sale for German account of securities obtained in occupied territories;
- (c) general extension of navicert system and, if possible, prohibition of any shipment of European destination without navicert; and particularly
- (d) adoption, if necessary, by United States Government of a general system of licensing of exports.’

The Ministry placed particular emphasis on the last of these proposals, pointing out that the vast rearmament programme, outlined in the President’s speech on 16th May, would make heavy demand on all essential materials, in respect of which the interests of the United States and Allied Governments were now identical. The object of the Allies’ export control schemes was to ensure their own supplies and to deny supplies to the enemy, either directly or through neutral channels, and they were anxious to administer these schemes in such a way as to meet the American rearmament requirements as well as their own. If the United States Government were prepared to put similar export-control plans into operation, this would be of cardinal importance in limiting Germany’s war effort, and would do

away with a large part of the friction inevitable in the administration of contraband control. The British Government attached great importance to securing the adherence of the South American Governments to any such scheme and they believed that the President would agree that this could best be secured by his approaching them in the first instance.

Mr. Purvis had already suggested to Mr. Morgenthau that the new defence bill should be so drawn up as to give authority to prohibit exports or re-exports of critical war materials, such as alloys, and had pointed out that this would give teeth to the moral and strategic embargoes which had hitherto been lacking. Mr. Morgenthau told him, on 15th May, that this had been arranged; on the 20th Mr. Hull promised to give 'immediate sympathetic consideration' to the British economic-warfare proposals of the previous day. In anticipation of the institution of a wide measure of export licence control, the Ministry sent to Washington on 8th June, for the State Department's information, a full list of important materials and commodities (additional to those already controlled by the moral embargo or the 'strategic' and 'critical' lists). These were in three groups. The essential items were:

Minerals

Abrasives, including artificial varieties	Industrial diamonds
Arsenic	Iron and steel, including all kinds of scrap
Asbestos in manufactured form	Lead, and all lead alloys, scrap and products
Bentenite	Magnesium
Bismuth	Monazite sand
Borax and borates	Nitrogen compounds, ammonium sulphate, nitrates, etc.
Cadmium and products containing it	Petroleum and petroleum products
Chrome in all forms	Powder metals
Coal and coke	Radium
Coal tar products	Sulphur
Cobalt in all forms	Talc
Columbite and derivatives	Titanium and derivatives
Copper, brass and all copper alloys, scrap and products	Zinc

Vegetable Products

Rubber scrap	Flax
Cotton rags, lintens, yarns	Ramie
Wool rags	Coir
Jute, jute yarns and manufactures, particularly bags	Gums
Hemp and sisal	Resins
	Waxes
	Vegetable oils and oilseeds

Miscellaneous

Explosives, fuses, etc.	Petroleum and gas well drilling apparatus
Skins	Tetraethyl lead
Acetone	Lamp black
Carbon black	Red lead
Glycerine	White lead
Oleine	Tallow
Stearine	Litharge
Casein	Leather
Soda ash and caustic soda	Bitumen
Machine tools	Refractory bricks
Carbon electrodes	Mineral oils, fats and greases
Naval stores	

There were, in addition, certain commodities which were not included in this list 'for obvious political reasons'; these were cotton, phosphate rock, and motor and truck tyres, new, old, and reconditioned.

The Defence Act was approved on 2nd July, and under Section 6 the President was authorized 'to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools or materials or supplies necessary for the manufacture, servicing or operation thereof'. The articles and materials subject to licence were defined in a proclamation of 2nd July. They were in five groups:

1. Arms, ammunition, and implements of war as defined in Proclamation No. 2237 of 1st May 1937.
2. The following basic materials, and products containing the same:

Aluminium	Manganese	Quinine
Antimony	Magnesium	Rubber
Asbestos	Manila fibre	Silk
Chromium	Mercury	Tin
Cotton linters	Mica	Toluol
Flax	Molybdenum	Tungsten
Graphite	Optical glass	Vanadium
Hides	Platinum group metals	Wool
Industrial diamonds	Quartz crystals	
3. Chemicals as follows:
 - Ammonia and ammonium compounds
 - Chlorine
 - Dimenthylaniline
 - Nitric acid
 - Nitrates
 - Nitrocellulose, having a nitrogen content of less than twelve per cent.
 - Soda lime
 - Sodium acetate, anhydrous
 - Strontium chemicals
 - Sulphuric acid, fuming

4. Products as follows:
 - Aircraft parts, equipment, and accessories other than those listed in Proclamation of 1st May 1937
 - Armour plate, other than that listed in Proclamation of 1st May 1937
 - Glass, non-shatterable or bullet-proof
 - Plastics, optically clear
 - Optical elements for fire control instruments, aircraft instruments, etc.
5. Machine tools as follows:
 - Metal-working machinery for melting or casting, pressing into forms, cutting or grinding, power driven, welding.

This legislation did not by any means satisfy all the British economic warfare requirements. There were some notable omissions from the list, particularly copper, nickel, lead, zinc, cobalt, scrap, cotton, and all petroleum products; moreover, with certain important exceptions, such as actual war material and machine tools, the list covered only basic materials and not completely fabricated articles, or materials ready for consumption, such as rubber tyres and rubber scrap. The fact was that the export-licensing system had been imposed primarily, as well as ostensibly, for supply reasons, and was concerned with remedying American shortages rather than with the creation of shortages in totalitarian states.

This did not mean, however, that the United States Government was unaware of, or indifferent to, the economic-warfare aspect; the mere fact that so wide a range of supplies was reserved for American and Allied war production meant that a substantial measure of control at source had automatically been established. It was indicated plainly to British embassy representatives during July that the State Department was fully aware of the vital importance attached by the British Government to the blockade, and that it intended to interpret the 'interests of national defence' in a very wide sense. Why, then, were the United States authorities unwilling to make a more extensive use of export licensing for economic-warfare purposes? One reason was, no doubt, that some time must elapse before the necessary administrative machinery could be elaborated, 'since the birth-pains of the system which is operated from the State Department are now particularly severe'. But the main reason was undoubtedly that the Administration was too wary to identify itself with anything which might be interpreted as offensive action against Germany, or even Japan; with a presidential election very near, and with the greatest uncertainty as to how far the overwhelming support for vast rearmament had modified the instinctive isolationism of the masses, it was not expedient to parade the idea that economic attack on the Axis could be the best form of Hemisphere or United States defence.

It appeared, in fact, that whereas the reverses in Flanders had strengthened the 'Aid the Allies' movement, the consciousness of vulnerability which followed the fall of France had produced a wave of something very like defeatism, and had virtually silenced interventionist talk in the press. In any case the word 'blockade' still had many unpleasant associations, and the State Department had no desire either to abandon formally its own traditional position on questions of contraband and neutral rights, or to incur the charge that it was facilitating British interference with American traders on American soil. A third reason was that the United States Government seems genuinely to have believed that a complete embargo on exports to belligerents (particularly Japan) would greatly increase the risk of involvement in hostilities, and was determined to avoid this.¹ Yet the United States policy was, in general, no longer one of strict neutrality; it may be considered to have entered a phase of active, though undeclared, non-belligerency with the President's 'dagger' speech of 10th June.

As the shift in American isolationist opinion from fear of entanglement with Europe as Britain's ally to fear of aggression from Europe by Germany became increasingly marked after June, the President kept in step with public opinion by placing the main emphasis on Hemisphere defence; direct aid to Britain was justified, as far as possible, as a contribution to this strictly defensive policy. Indeed, the British interest in securing direct aid, and ultimate aid, from the United States, even tended to conflict with the British interest in securing the more indirect forms of aid which would have furthered the success of economic-warfare policy. So there continued to be very considerable uncertainty in London as to how far it was wise to press for further co-operation by the United States Government in economic-warfare measures, and the situation was further complicated by the tendency of the Americans to embark with enthusiasm on certain isolated offensives without adequate preparation to meet the consequences. A clear example of this was the problem of oil supplies to Japan; the banning of the export of certain higher grades by the President at the end of July 1940 merely turned the attention of the Japanese towards the Netherlands East Indies. This problem will be discussed in the next section of this chapter.

We noted in the last chapter that Britain's main changes in economic-warfare policy at this point, the introduction of the compulsory navicert and ship warrant systems, were accepted with sympathy by the State Department, and without hostility by the press. The extension of export control by the President's proclamation of 2nd July had clearly pointed the way towards either 'compulsory' navicerting

¹ Cf. *The Memoirs of Cordell Hull*, i, 899.

or the setting-up of an American system of export control which would have the same effect. Lord Lothian accordingly felt justified in proposing to London on 8th July that the British Government should announce that no consignment from the United States to European ports would be passed by the British contraband controls unless it were accompanied by a valid navicert issued before shipment. On 25th July the embassy was able to inform the State Department, on instructions from London, that the new arrangements would be introduced on 1st August.

(ii)

Oil

(June—October 1940)

How far the United States was prepared to go at this stage in supporting British economic-warfare measures can be clearly seen in its attitude towards American oil shipments to Europe. It was the general aim of British policy to create an oil famine in Europe and to stop any supplies which might fall within the following categories: (*a*) supplies which might, after receipt in a neutral country, fall into enemy hands by reshipment or otherwise; (*b*) supplies to a neutral country which might free other stocks for the enemy; (*c*) supplies to a neutral working industrially for the enemy which, if *not* made, would either force that country to close down its plants or to draw its supplies from the enemy or from a source which was supplying or might supply the enemy. The third point seemed particularly important in the case of Sweden, who was working industrially for Germany and who ought, therefore, if possible, to be forced to draw her supplies of oil from Germany or Russia.

On 11th June, the day after Italy entered the war, President Roosevelt proclaimed the Mediterranean Sea a combat zone, from which United States ships, aircraft, and citizens were barred; from this, however, the north and west coasts of Spain, and the coasts of Portugal, were exempted. With Spain and Portugal now in the category of 'adjacent neutrals' the entry of contraband into the peninsula acquired greatly increased significance for the Allies, and the Ministry was particularly perturbed by the accumulation of oil reserves in Spain. It was estimated in the middle of June that her reserves already amounted to nearly 400,000 tons, and they were likely to increase still further unless some limitation could be imposed on the number of neutral tankers which Spain was able to charter. The monthly rate of consumption in Metropolitan Spain as a result of recent restrictions was believed to be about 50,000 tons only, and

on this basis the combined monthly requirements of Metropolitan Spain and the CEPSA Refinery at Teneriffe would be about 85,000 tons. Her monthly imports over the next three months were, however, estimated at 115,000 tons. She could import in her own tanker fleet an average of about 50,000 tons a month; she had certain neutral tankers on long-term charter, and she had recently chartered further neutral tankers for single voyages. The majority of the latter were American, and their liftings from United States sources in May, June, and July were found to average 60,000 tons a month. The Ministry had ample evidence that some of the American oil companies were taking steps to meet the increased Italian and Spanish demands.

In a telegram of 16th June to Washington the Ministry suggested that the problem would be largely solved if the United States Government were prepared to impose the necessary restrictions on the chartering of tankers sailing under the American flag.

The British Government had already taken steps to cut off oil supplies to Spain from British-controlled sources. No British tanker had discharged in Spain since the opening of hostilities; a South African tanker, *Uniwaleco*, carrying 9,300 tons of fuel oil, was on its way to Barcelona (although routed only to Gibraltar), and the Ministry asked the South African Government to requisition it. Arrangements were made by means of an export-licensing system to stop exports from Bahrein to Spain and other non-approved destinations; approaches were also made to the Norwegian and Dutch authorities to prevent their tankers being chartered for Spain. British interests were ordered to cease refuelling their bunkering installations at Las Palmas, and leave to bunker here was withdrawn from all British and controlled ships.

Before the end of June the British embassy knew that the State Department was prepared to go to the limit of its powers to help administratively in this matter, although owing to the unlimited supply in the States it would probably not be possible to apply the Defence Act to oil. The United States departments concerned were, however, ready to take action which would embrace not only American tankers chartered to foreign companies but also those operated by American companies. The Maritime Commission would make it known that in view of the dangers of navigation and of the nature of the commodity it would look unfavourably on any American-owned tanker going to Spain or Portugal unless it had been previously provided with a safe conduct issued by the blockading belligerent. The safeguard would in practice be a navicert, although the term would not be used officially in this connection.

The practical result of this plan was that no non-navicerted oil was carried to Spain and Portugal during the succeeding weeks in an American-owned tanker, for while the commission had no legal

powers to enforce its ruling it found the companies ready to fall in with its wishes. The immediate problem was to deal with abnormally high Spanish stocks; the Ministry estimated that the Spanish tanker fleet could carry from America about 500,000 tons a year against the country's probable annual requirements of about one million tons. This meant that if Spain's imports were restricted to the carrying capacity of her own tanker fleet the necessary reduction of stocks would be complete in about three months. On 27th June the State Department pointed out that although by tanker control the immediate problem could be met the only satisfactory long-term policy would be for the British Government to agree with Spain and Portugal on the quantities which they should import and then arrange for these quantities to be obtained from the usual suppliers. The navicert system could be used to regulate these quantities. By 11th July the ambassador was able to report to London that the State Department had completed arrangements to ensure that no United States flag tankers would carry oil from the Americas to Spain, Portugal, or their Atlantic islands, and that the department was also ready if required to co-operate with the British with regard to foreign flag tankers owned by United States companies. With this American co-operation the Ministry was able to proceed with its plan of rationing Spain and Portugal; after the decision to impose compulsory rationing was announced on 30th July, Mr. R. M. C. (later Sir Mark) Turner, representative of the Ministry, visited Spain, and an agreement on the basis of the maintenance of three months' stocks was in due course concluded (see Chapter XV).

There also seemed for a time a prospect of a wide measure of co-operation on the oil question in the Pacific, although in this case the American plans were not without their embarrassing features. On 16th July, when questioned about the report that Great Britain was closing the Burma Road to China, Mr. Hull said that such action would constitute 'unwarranted interpositions of obstacles to world trade'. On the 18th, at a small dinner at which three cabinet ministers (apparently Colonel Knox, Mr. Stimson, and Mr. Morgenthau) were present, Lord Lothian said, in reply to a criticism of the Burma Road decision, that the British Government had offered to resist Japanese demands if the United States would support the British action to the point of risking war; when the United States Government, for perfectly intelligible reasons, had replied that it could not do so, the British Government had decided to give way rather than risk the probability of having to fight singlehanded both in Europe and the Far East. This conversation led the three ministers to discuss the possibility of action by the United States to deter Japan from war by means of restrictions on oil supplies. In pursuance of this idea they saw President Roosevelt, and then put

before the ambassador on 19th July the proposal that all Japan's supplies from California, the Persian Gulf, and the Netherlands East Indies should be stopped. In support of this plan they argued that the bulk of Japan's supplies came from these sources, that her existing stocks were very low, and that if she were in this way completely denuded of petroleum she would be unable to make war. On the same day the embassy had a confidential enquiry from the State Department as to whether it would be helpful to the British if the United States were to impose a complete ban on the export from the United States of oil (including lubricating oil) to all countries.

When it came to the point, however, neither government was ready to support a complete embargo. On the British side the two main objections were that anything more than a temporary interruption of American supplies to Britain of oil (and particularly of lubricating oil) would seriously impair the British war effort in Europe, and that in the existing circumstances the British could not take action which might lead to a Japanese attack on the Netherlands East Indies without an assurance of United States support. The plan put before the ambassador by the three ministers on 10th July had not met either of these objections. It had proposed that the United States should cut off all supplies of oil to foreign countries including Japan, nominally as a means of national defence and conservation in order to avoid a charge of discrimination; Britain and the Dutch for their part should be prepared to stop all Persian Gulf and Netherlands East Indian oil from reaching Japan, and should if necessary destroy the refineries and wells in Borneo and the Netherlands East Indies. It was assumed that if these measures were carried out thoroughly Japan would be almost completely starved of petroleum, and therefore unable to fight; thus the question of United States participation would presumably not arise, and it certainly does not seem to have been included in the ministers' plans. It followed of course that the United Kingdom would have to rely for its oil upon South and Central American, and on Near and Middle Eastern, sources. There was no doubt that the British Government would have to reject so adventurous a policy at this stage; on this both the Ministry and the Foreign Office were agreed. The Ministry was, however, anxious that nothing should be done to discourage the American initiative, and that the Americans themselves should think out the consequences of their proposals and decide whether they were practicable. The draft of a Foreign Office telegram on the point to Lord Lothian was, therefore, on the Ministry's suggestion, redrafted on these more tactful lines.¹

¹ The second draft was further revised in the light of instructions from the Prime Minister to bear in mind 'that we cannot risk open conflict with Japan at this juncture, or the interruption of our own vital oil supplies'. The final version was approved by the Prime Minister on 21st July, before despatch.

Before this reply was received in Washington Mr. Sumner Welles had told Lord Lothian on 20th July that although the United States Government was interested in the question of restricting oil supplies to Japan the scheme of the three ministers could be used only as a last resort after it had become clear that Japan was bent on war, and provided she had not enough oil reserve to enable her to carry on until the Netherlands' oil wells and refineries had been restarted. He understood that she had in fact considerable supplies of fuel oil, though not of high octane petrol. The matter was thrashed out in a conference between Lord Lothian, Mr. Morgenthau, and Mr. Sumner Welles on 22nd July. Mr. Morgenthau was strongly in favour of carrying the control of oil to the furthest possible limit as an instrument for dealing with the dictators; but Mr. Welles, though sympathetic, was better informed, and said that the Navy Department estimated the Japanese reserves of oil at 69 million barrels—enough to enable the fleet to carry on for more than a year. So even the cutting off of all supplies from the Persian Gulf, the Netherlands East Indies, and California would have no immediate decisive effect, and it would not be easy to secure the cutting off of supplies from Mexico and several South American states. The policy of the United States Government was to avoid any action which might precipitate war in the Pacific, and he believed that in the existing circumstances the attempt to cut off all supplies of oil to Japan would have this effect. He thought therefore that the right policy was to keep the closest watch on the oil situation and to put such pressure on Japan in minor ways as was practicable.¹

Although the State Department had thus rejected the larger proposal for a joint embargo on all oil exports to Japan, the more limited proposal that the United States should itself prohibit all exports of oil as a measure of national defence made rapid headway. The first reaction of the British Government was by this stage known to the embassy, which pointed out to the State Department that the proposed ban, though helpful in some directions, might create difficulties in others, and might precipitate a crisis in the Pacific. On the 24th the embassy was assured that no difficulty need be anticipated with regard to Britain's own supplies, although things were moving so fast that the British would have to act promptly if they wished to apply any brake. Before any further proposals were received from London a presidential order on 25th July had extended the application of the Defence Act so that licences would be required for the export of petroleum and its products, and of scrap. Many newspapers interpreted this as the imposition of an embargo on the export

¹ This incident is not mentioned in *The Memoirs of Cordell Hull*. But it was clearly a point of honour in the State Department to resist Mr. Morgenthau's incursions into foreign affairs (*e.g.*, i, 902).

of these articles, but on the 26th President Roosevelt told the press that the order was merely the enforcement of the licensing system, and that a later proclamation would give a definition of the categories involved. He said that the action was purely a matter of national defence, and had no connection with the closing of the Burma Road. On 31st July it was announced at the White House that the President had ordered, in the interest of national defence, that the export of aviation petrol should be restricted to the countries of the Western Hemisphere. The technical description of the items involved, which were added to the Export Licensing List on 26th July, was as follows:—

- A. Petroleum products: (a) aviation motor fuel, i.e. high octane gasolenes, hydrocarbon and hydrocarbon mixtures (including crude oils) boiling between 75° and 350° F. which, with the addition of tetraethyl lead up to a total content of 3 c.c. per gallon, will exceed 87 octane number by the A.S.T.M. Knock Test Method; or any material from which, by commercial distillation, there can be separated more than three per cent. of such gasolene, hydrocarbon or hydrocarbon mixture; (b) aviation lubricating oil, i.e. any lubricating oil of 95 or more seconds Saybolt Universal Viscosity at 210° F. with a viscosity index of 85 or more.
- B. Tetraethyl lead: pure tetraethyl lead, ethyl fluid, or any mixture containing more than 3 c.c. of tetraethyl lead per gallon.
- C. Iron and steel scrap: No. 1 heavy melting scrap.

On 29th July Mr. Welles told Lord Lothian that it had been made quite clear to the Soviet and Japanese ambassadors that it was the policy of the United States Government to give Great Britain every help short of war and that they intended to give licences for all British oil requirements.

Although the United States action could be welcomed as an early and tentative step towards full co-operation with Great Britain against Japanese aggression it was nevertheless a highly embarrassing move in the existing circumstances. The British Government was fully conscious of the difficult problems of rearmament and internal politics which faced the Administration in Washington, and could foresee an increasing degree of direct and indirect help when the gigantic defence programme became a reality, and when the grim logic of political geography had convinced the still-bewildered American citizen that there was no short cut to security through isolationist escapism. The immediate effect of the decision of 26th July was, however, that Japan increased her pressure on the Netherlands East Indies. The restriction on the export of iron and steel scrap did not affect her seriously. She was already buying less of these products than in 1939, for she found it cheaper to buy steel ingots and rolled products; as the ban of 26th July concerned only the highest

grade of scrap she proceeded to increase her purchases of other iron and steel products. But she was dependent on the United States for about two-thirds of her oil imports, and was believed to be very short of aviation fuel. In the middle of July the Japanese Service Department had placed orders with the 'Rising Sun' (the Japanese subsidiary of Shell) for quick delivery of 17 million gallons of aircraft fuel from the United States and at the same time had approached the agents of the Texas Oil Company with a view to securing $7\frac{1}{2}$ million tons of lubricating oil for aircraft. The latter represented four or five years' supply for the army, and the British ambassador in Tokyo had suggested that this large quantity was intended as a precaution against an American embargo. The fact that exceptionally big orders for aviation fuel were being placed in the United States with practically every important company seems to have had much to do with the decision of the United States Government to act speedily in the matter. There were some signs of Japanese annoyance at the American action, but the direct result was the intensifying of Japanese activities in South-East Asia.

The British Government had earmarked for its own use all high-octane spirit available in the Netherlands East Indies. The Japanese had not in past years purchased these qualities there, where production was a recent development. Nevertheless there could be little doubt that it would become necessary for the British to release a part of these supplies if they were to avoid the risk of a collision in the Far East, although they were prepared to play for time as long as possible. The practical result was, therefore, that the consequences of the United States' action were likely to fall on the British and Dutch, and there was the additional danger that damage would be done to public opinion in the United States, where the British might be condemned for supplying to Japan materials embargoed by the Americans. The position was complicated further by the fact that two companies, Shell and Standard Vacuum, were just concluding negotiations whereby they were to supply 40,000 tons of crude oil a month to the Japanese from the Netherlands East Indies, and there was some pressure from the Japanese for a further $1\frac{1}{2}$ million tons a year. The Foreign Office learned on 25th July that the Japanese had asked the Netherlands Government for an extra 400,000 tons of petrol during 1940, which meant that they were asking for 900,000 tons for the year. They had also indicated that they would want two million tons in 1941. The complexities of the position were discussed by Lord Lothian and Mr. Welles on 29th July; the ambassador said that the British were in much the same position as they were over the Burma Road, and could not precipitate a war by refusing Japanese demands for oil so long as the present acute phase of the war lasted in Europe, and so long as the United States was unable to

offer military support. Mr. Welles said that he understood the British position perfectly well. On 6th August, Mr. Welles again concurred fully in the ambassador's view that Britain could not, in the last resort, go to war to prevent the Dutch from meeting the Japanese demands. He promised, as he had done on 29th July, that the State Department would do its utmost to damp down any attempt to represent British action as a betrayal of the United States and China.

As the United States Government was not prepared at this stage to go beyond the decision of 26th July the British and Dutch were left to make what terms they could with the Japanese. Mr. Morgenthau, who had been asked by the President to take charge of the oil discussions, suggested at the beginning of August that a British oil expert should be sent over to discuss the position; on 6th August the Foreign Office was able to tell the embassy that Sir Andrew Agnew, the head of the British Petroleum Board, had agreed to go. At Mr. Morgenthau's request this was treated as a matter of great secrecy. The State Department, in spite of Mr. Sumner Welles's assurances, showed some reluctance in accepting the logic of the British position in the case of Japan, although on all other points the British and American oil policies were virtually identical. Thus the State Department fully accepted the British view that 'adjacent neutrals' in Europe should be limited to amounts necessary for current consumption, and that imports should be kept below this figure wherever stocks were too high. So clearances for American flag tankers for Spain and Portugal continued to be refused; three clearances for Japan were also refused during the first week of August. Applications for export licences for lubricating oils to Eire were referred to the British, and were refused when the Ministry replied that such exports were not necessary for the fight against the dictators, and that there seemed no reason why Eire should be treated differently from any other neutral. Both governments recognized the great importance of full co-operation with the oil companies; the problem of control could be handled only on a global basis, and it was necessary before effective measures could be taken to come to an understanding with the companies and to take account of technical considerations arising out of their exchange supply agreements, their relative market positions, and their political responsibilities in neutral countries.

The State Department and Lord Lothian continued during August to urge that the Netherlands' companies should not tie themselves up with contracts of long duration. The fact that some of the American companies were supplying Japan from sources outside the United States, including the Netherlands East Indies, further complicated the problem. On 22nd August the State Department told Standard Vacuum that while it did not approve of the company's participation in the proposed deliveries of crude oil from the Nether-

lands East Indies it could not prevent it. The Netherlands Government, with whom the final responsibility lay, found, indeed, little in the American attitude to justify a defiant attitude.

It was clear enough by the end of August that the ban on aviation fuel was leading to complications which the Administration had not clearly understood at the time of its imposition. The British Government's policy, as in July, was to keep as closely in step with Washington as possible, and to lead the Americans to think out the implications of their own action. A telegram of 24th August from the Foreign Office said that it was obviously better that the United States Government should itself put on the Dutch whatever pressure it thought necessary: moreover 'the inevitable enquiry as to what the United States of America propose to do in case of Japanese retaliation against the N.E.I. would come much better from the Netherlands Government than from ourselves'. Before the receipt of this telegram Standard Vacuum had informed the Netherlands Government of its willingness to participate in the crude-oil sales to Japan, and accordingly the Shell representative, with Lord Lothian's concurrence, had felt obliged to forward his own company's proposals to Yokohama, although he had told the Shell agent there not to enter into commitments regarding the duration of the contracts without further word. On 8th September Sir Andrew Agnew reported that the State Department was taking the view that any supply contract for oil to Japan should, under the existing conditions, not exceed six months.

This suggestion of a definite term for forthcoming contracts certainly helped to promote more precise discussion, but by this stage a further complication had been introduced. According to a report in the British press, aviation spirit was being exported from Texan ports to Japan with the approval of the United States Government; one explanation given for this apparent lifting of the embargo was that the Anglo-Iranian Company had sold aviation spirit to Japan since 26th July. An authoritative denial that such supplies had been made by the company was issued on 5th September; this denial was published in the United States, and on 11th September the ambassador was able to say that there had been no change in American policy, although he understood that 'one or two shipments may have received licences due to clerical errors'. The Ministry continued, however, to receive reports from Houston (Texas) of heavy shipments of 86 octane petrol for Japan; and the embassy reported on 19th September that the total shipped or to be shipped in August and September had already reached over one million barrels, which was almost equal to the total amount of gasolene shipped from the United States to Japan in 1939. The explanation was that this gasolene was largely of 86 octane rating, and the balance was reported to be 'aviation base stock', that is, 73 or 74 octane rating,

which, with the addition of 3 c.c. of tetraethyl lead, could be raised to $86\frac{1}{2}$ octane. Thus technically the petrol did not come within the provisions of the United States export licensing system, which defined aviation gasoline as 87 octane rating. A memorandum summarizing these facts was given to the State Department by the embassy on 18th September. In London the Foreign Office, which in the existing circumstances disliked the whole oil-embargo policy, was opposed to any representations being made in case the State Department was led thereby to make the embargo more complete.

Sir Andrew Agnew's report was discussed at an inter-departmental meeting at the Foreign Office on 13th September; a representative of the Shell Company who was present took the view that the N.E.I. companies were committed to letting the Japanese have 40,000 tons of crude oil a month over a period of twelve months, and also two cargoes of aviation gasoline—one in September and one in November—and he urged that the American Government should be told that it was not possible to give the Japanese less. The meeting decided, however, that an attempt must be made to persuade the Netherlands Colonial Minister, Dr. Welter, to agree to the American proposal limiting shipments to 40,000 tons of crude a month for six months and to one cargo of aviation gasoline. But Dr. Welter was convinced that the companies were committed to supplies for twelve months, and to the two cargoes of aviation fuel; and he remarked that there was no doubt that although the Americans were strong on the policy of cutting down oil for Japan they were not so strong when it came to discussing defence measures in the Pacific, and had recently given the Dutch a non-committal reply on this point. He thought, therefore, that the twelve months' supplies of 40,000 tons must be agreed to; it might then be possible to resist the recent Japanese demand for an increase of this figure to 76,000 tons a month. On 22nd September the Foreign Office told the embassy that it had proved impossible to induce the Dutch to depart from their position.

As a result of these developments the relevant American departments had certainly acquired a better understanding of the real complexities of the situation, and of the ineffectiveness of the export-control system as far as oil supplies to Japan were concerned. The Netherlands point of view was accepted in substance by the State Department during discussions with Sir Andrew Agnew on 3rd October. Figures were tabled at this meeting which showed that the oil companies in Batavia were offering the Japanese representatives a total of 2,000,500 tons per annum, of which 480,000 had already been offered for twelve months, while the balance was to be offered on a six-monthly basis. Standard Vacuum and Shell would participate in the usual trade proportions. The State Department representative was very insistent that the 'periodical arrangements' indicated in

this timetable of deliveries should not be exceeded; if oil-producing companies in the Netherlands East Indies were attacked politically or in the United States press for supplying Japan with largely increased quantities of oil in substitution for supplies which formerly came from California, the State Department could defend the position on the basis of short-term contracts, but could not possibly do so if long-term contracts were concluded which would prejudice the future prospects of old suppliers. It was agreed that all supplies, except those required by companies for their marketing quotas in Japan, should be on an f.o.b. basis, leaving the buyers to provide their own tanker tonnage for lifting the oil from the deep-water loading port. Lord Lothian strongly recommended to the Foreign Office the acceptance of these quantities and periods by the Shell Company and the Netherlands Government. He was told on 8th October that the arrangements were generally acceptable to the British Government, and that there was no desire whatever on the part of the companies to exceed the terms proposed. It still remained to be seen, however, whether the Netherlands Government would be able to resist further pressure.

In general, therefore, the United States Government had come to recognize by the beginning of October that its oil policy against Japan was likely to be quite ineffective until it was prepared to meet the consequences of collaboration with the Allies in a global policy of restriction. The time for this had not arrived, and during the succeeding months the Netherlands Government had to shape its policy accordingly.

(iii)

Seeking a Policy (October 1940—March 1941)

During the winter of 1940-41 the British seemed to be making relatively little headway in their attempts to persuade the United States Government to exert its full strength in the sphere of economic warfare, although the Ministry gladly recognized the value of American co-operation in the working of the actual blockade machinery—the navicert system, the examination of mails, and so on. The British Government was rightly convinced that if the full strength of the vast economic resources of the United States were employed ‘the effect . . . would be tremendous’. A note drawn up for Mr. Harry Hopkins during his visit to England at the beginning of 1941 set out the British requirements. ‘What is needed is a funda-

mental decision that on all occasions the possibilities of economic action should be taken into account as a vital element in the scheme of defence, and that no purchase of a strategic material should be made, no ships and no tankers should be chartered to a neutral power, no credits should be granted or bunkers supplied, without extracting the maximum benefit from the point of view of Economic Defence.' There were various other ways in which the United States Government could contribute greatly to the success of Allied plans, such as the denial by preclusive purchases of supplies of strategic materials to Germany, Italy, and Japan, co-operation in black-listing, the stoppage of the Italian Air Service (LATI) to South America, the blocking of enemy-controlled financial assets in the United States, and the enabling of the British navy to use its ordinary belligerent rights to control contraband traffic from the Americas. No real progress in these directions was made, however, until after the passage of the lease-lend legislation in March 1941, although during the previous six months or so the many formal and informal conversations by British representatives with various members of the Administration helped to familiarize Americans with the great possibilities of the economic weapon. It was clearly desirable to press steadily for certain specific developments—such as the extension of the export-licensing list—even if the moment seemed inopportune for proposals of a more far-reaching character. But the United States Government was still not prepared to take, in the name of defence, any measures which would involve a serious risk of war with the Axis; and the tendency was to accept Hemisphere defence on the basis of the Panama declaration as a viable policy. This prevented either the effective exercise of Allied contraband control in American waters, or the development of a comprehensive programme for the restriction of supplies to Japan. A genuine handicap was the absence from the Administration of any single administrative organization charged with planning economic defence, and therefore able to take a comprehensive view of the problems involved and to see that plans were carried through in all departments of government.

On 26th September President Roosevelt declared an embargo on the export of iron and steel scrap as from 16th October except to countries of the Western Hemisphere and to Great Britain. The tripartite pact between Germany, Italy, and Japan was signed in Berlin on 27th September. The pact meant that Japan had made her final choice in world politics, and Mr. Hull told Lord Lothian on the same day that he took a serious view of the change in the international situation, although he did not expect any belligerent outcome in the Far East in the near future. He seemed, however, to feel, as a good many other people in the United States now felt, that the United States itself would inevitably be drawn into the war before

very long. He told Lord Lothian that if war did come the United States' policy would be a long-distance blockade and that he did not think it would involve any considerable diversion of munitions from Great Britain. Lord Lothian told his government that he believed the pact to be 'largely a gigantic international bluff, at any rate so far as the Far East is concerned', and he thought that the right line for Britain and the United States was to present a 'calm, unyielding front' to Japan, and that Britain should not renew the Burma Road agreement. Britain would tend to lose the support of the Americans if she yielded to the argument that a row with the Japanese could be avoided by renewing the agreement, and it was also of the utmost importance to prevent any scrap being sold to Japan from India or elsewhere. It had already been suggested in the United States press that Britain would profit from the American embargo.

The British Government's decision was in accordance with this advice; the Japanese Government was informed that the Burma Road agreement would not be renewed, and the reopening of the road on 18th October coincided so closely with the imposition of the American embargo on scrap exports as to suggest to most people (including probably the Axis) that the latter was primarily a political move directed against Japan. This was the Ministry's opinion, until the embassy told it that the embargo was genuinely based on the American supply position.¹ The setting-up of the Butler Committee² was followed by the decision to consider measures for the control of trade between Japan and the British Commonwealth, in concert with the governments of the United States and the Netherlands. As the object of this was to keep Japan short of supplies, in order to prevent her stocking-up for war purposes, it was essential that a comprehensive policy should be followed; the experience of the previous months in connection with oil supplies had shown all too clearly that an embargo imposed by one country simply gave trade to another supplier. Hitherto restrictions had been enforced by both the Commonwealth countries and the United States, but there had been a marked difference in the basis of discrimination, and it was not easy to fit the two systems together. The Commonwealth countries had, generally speaking, limited exports to Japan of key commodities to normal proportions, and certain commodities which were largely controlled in the Commonwealth, particularly nickel, jute, and mica, had been more drastically restricted. The United States on the other hand had imposed a moral embargo on a small range of exports and had entirely prohibited exports of aviation spirit and scrap iron under the Defence Act, but other exports, such as copper, were completely unrestricted.

¹ Cf. *The Memoirs of Cordell Hull*, i, 907.

² See p. 428.

It was already clear that a comprehensive plan would be difficult without an adequate organization in the United States Administration to handle the complicated problems involved. The announcement on 26th September of the forthcoming ban on scrap led to heavy Japanese purchases during the next three weeks, and illustrated all too clearly the inadequacies of the existing arrangements. An embassy telegram, after explaining the failure to prevent these extensive Japanese purchases, said, 'the moral of it is that in an operation in which we took the lead, the Treasury, the Department of Commerce, and the Defence Commission, were all concerned; but none of them could act alone; nor could the President whom they tried'. In his Columbus Day address on 12th October the President insisted strongly on the necessity for complete Hemisphere defence, and on 14th October, when Lord Lothian spoke of the need for the regulation of all exports of the Western Hemisphere by means of export licences, he found the President 'receptive'. So it seemed that the need for a single organization for economic defence was impressing itself on responsible quarters in Washington; it was known that a group in the Treasury and Defence Commission was working to establish an Economic Defence Commission. Events were not, however, to move quite so rapidly as the British hoped.

On 16th October, following a suggestion by Mr. Hull, a thorough-going examination took place, item by item, of the reasons for the issue and refusal of United States licences, and of the destinations concerned. There was a similar examination of the British Commonwealth and United Kingdom lists, with particular reference to Japan. This revealed various important qualitative and quantitative differences between the two systems, as a result of which the State Department was asked to include in its lists the following commodities: nickel, nickel scrap, copper, lead, zinc, cobalt, carbon black, titanium, cadmium, and rubber scrap.

These discussions anticipated in part the proposals for a comprehensive Anglo-American policy which the Butler Committee had decided to make, and which were telegraphed to the embassy on 19th October. The British proposal was that there should be joint secret discussions between the United States, Dominions, Netherlands, and United Kingdom as soon as possible, and preferably in London, 'to prevent Japan building up stocks'; restrictions imposed could be extended later as was found advisable. The question of the Philippines was also important; Japan had already imported 18,500 tons of chrome from there during 1940 as against about 13,500 in 1939, and negligible quantities in the three previous years. The Japanese had just enquired for 5,000 tons of chrome ore from India, but any restriction imposed by India would be of no avail so long as Japan was able to meet her requirements from the Philippines. There

was also the question of exports from South and Central America. A question of less immediate urgency was the restriction of Japanese exports.

Similar proposals were sent to the four Dominion governments on the same day (19th October); on the 18th a telegram from the Foreign Office to Washington had explained the British position with regard to the American embargo on scrap. Export of scrap iron from the Commonwealth to Japan was insignificant compared with United States exports; it was subject generally to licence throughout the Commonwealth, and no licences were being given for exports from Canada and the United Kingdom. A complete embargo in India and Australia might have a provocative effect on Japan, because scrap was not needed for domestic consumption, but it might be possible to defend it as a measure to protect a supply reserve. In order to keep in line with the United States the Dominions were being asked to impose an embargo, and the governments of India and the eastern colonies to refuse or suspend the issue of licences. It would be logical to impose restrictions on pig iron similar to those on scrap.

The British *chargé*, Mr. Nevile Butler, replied from Washington on 23rd October that despite the need for rapid action with regard to Japan it would be extremely difficult for the United States Government to take an active part in discussions on the lines proposed, particularly if they were held in London. This was partly because of the imminence of the election, and partly because of the multiplicity of groups already concerned with problems of economic defence. Informal soundings of the State Department on 28th and 29th October confirmed these impressions, and on 4th November Butler was told that the Secretary of State 'was firmly of the opinion that their main interest should be to avoid provoking the Japanese', and that no immediate decision should be taken. On 1st November the Foreign Office agreed that the discussions must be postponed until the United States was ready, and that if necessary they should take place in Washington. On 15th November it was suggested to the State Department that the best means of dealing with Japanese oil imports was to restrict the United States and United Kingdom tanker tonnage available to Japan; this would be a less provocative step than the rationing of exports, and it seemed likely to constitute a much more effective bottleneck than the necessity for payment in dollars. The State Department did not, however, show any interest in this plan.

During November informal discussions continued, and these at least helped to make the working of the United States export licensing procedure and practice a little clearer, although as these were still in their infancy the Administration itself was not always in

a position to give explanations. It was known that the question of the extension of the lists was being studied inside the State Department, as well as between the representatives of the department and the embassy. There could be no doubt that the export to Japan of a few commodities such as molybdenum, aluminium, oil-refinery equipment, oil-drilling machinery, and possibly scrap iron, had been limited for political reasons, but the limitation of other commodities on the list, which were four or five times as numerous, had been for supply reasons only. The commodities which the embassy had suggested for inclusion in October were all, with the exception of zinc, in abundant supply in the States, so that if they were included at all extensively it might be assumed that for the first time the United States Government had made deliberate use of the export licensing system as a weapon of foreign policy. From this point of view the additions which it was decided to make to the list during December did mark a considerable move against Japan; iron ore, pig iron, a number of ferro-alloys, and semi-finished steel products were made subject to licence from 31st December, and cobalt, strontium metal and ores, abrasives, and tools incorporating industrial diamonds from 6th January 1941. Co-operation in other spheres was, however, still too limited to suggest any fundamental change of United States policy in favour of more active support for the economic blockade.

This was illustrated by the failure of the embassy to overcome the American Government's continued objection to the tightening of contraband control in the Caribbean. There were two types of traffic from the Americas which the British Government needed particularly to control; one was that between North and (to a lesser degree) South America, and France or French North Africa; the other was the carriage of goods from the Americas to the Far East for transmission to the enemy through Siberia.¹ For political and naval reasons it was not possible to apply effective control either off the North African coast or in the Western Pacific, but both trades could be effectively controlled in or near the Caribbean. The Admiralty therefore desired to establish a control base at Trinidad and to base some armed merchant cruisers there for the purpose of contraband control, including the interception of ships. The cruisers would also take part in routine patrols and in hunting raiders.

By this stage the French trade was becoming very dangerous; there was a regular traffic between New York and Martinique and thence after transshipment to Casablanca; plans were known to be on foot for the sailing of French oil tankers from Mexico and elsewhere, and

¹ There was also, of course, a certain amount of smuggling into Europe of goods of small bulk and high value. Up to this point no effective means had been found to control smuggling from South America by air. Thus there was evidence on several occasions early in 1941 of a contraband leak of Colombian platinum via Pan-American Airways to Santiago, Chile, and onwards to Europe by Condor-Lati.

for sailings in both directions between Buenos Aires and occupied France.

In the first instance the Admiralty's plans did not contemplate the interception of any ships other than those passing between Martinique and Africa, so that it was not thought that American interests would be greatly affected. But this attempt to close the French leak in the blockade was frustrated both by the State Department's Caribbean ban and by its decision at the end of 1940 to insist on the relaxation of the blockade still further in favour of French North Africa and, in a more limited degree, of Vichy France (see Chapter XVI).

The same obstacles were placed in the way of the interception of traffic to the Pacific. The ships sailing for the Far East which it was particularly important to intercept were mostly Japanese, although there were some Yugoslav, Swedish, Norwegian, Greek, and Soviet vessels. They were carrying to Japan from the east coast of South America a wide variety of key materials, some of which were known to be destined for the enemy. In October 1940 the Ministry had found that Japan was making heavy purchases in Brazil of castor seed, which was particularly useful for lubricants for aviation. The bulk of the Japanese requirements had hitherto been supplied by Manchukuo, and exports from Brazil to Japan had amounted to only 5,328 tons in 1939, and to 1,700 tons in the first seven months of 1940. It appeared, however, that arrangements were being made to ship some 16,000 tons to Japan during the last months of 1940, with no offsetting decrease of purchases from other countries. In at least two cases (the *Hokoku Maru* and the *Yamakaze Maru*) there was sufficient evidence of German destination to justify seizure, and the embassy was instructed on 28th October to sound the State Department about the interception of future ships between the West Indies and the Panama Canal.

But all these proposals brought the British Government face to face with the problem of the Panama neutrality zone, and the United States Government, which was ready for unconventional action in some other spheres, proved singularly uncooperative here. In questions which involved a technical violation by the British of this unilateral declaration it did not hesitate to give at least formal support to protests by its South American neighbours. There were a number of such cases at this period, culminating in that of the *Siquiera Campos*, in which the Brazilian case was strongly supported by the State Department. Lord Lothian did not think it desirable to press the general question of interception until the problem of Brazilian munitions (involved in the *Siquiera Campos* case) was out of the way. But the news that a Swedish ship, the *Ecuador*, was loading at Galveston with cotton for Russia made an immediate approach to the State Department necessary. We shall see in following the story

of the Anglo-Russian negotiations that by this stage Sir Stafford Cripps had abandoned hope of an agreement with the Soviet Union, and advised the exertion of economic pressure (Chapter XX).

Accordingly, on 9th December, Mr. Neville Butler called Mr. Sumner Welles's attention to the increasing volume of shipments through the Caribbean and Panama Canal of cargoes, mostly for Japan, which the Ministry could prove to be contraband, and said that his government had reluctantly reached the conclusion that the only feasible solution was interception in the Caribbean of ships carrying these cargoes. The Admiralty had therefore made preparations for coasting vessels to intercept the *Ecuador*. Mr. Sumner Welles made it plain that he was completely opposed to any such action on Britain's part, although he postponed a direct refusal by asking for figures of dangerous shipments from the Americas to Japan or Russia. He argued, however, that the proposed British action would destroy the carefully built-up protection against German raiders in the Caribbean, and would jeopardize American and inter-American shipping; the system was of material help to the British convoy system, and to the best of his belief no German surface raiders or submarines had hitherto operated within the neutrality zone, with the possible exception of the *Heligoland*. He agreed that it was in the long run decidedly to the advantage of both the United States and Latin America that Germany should not get such commodities as cotton and castor seeds, but thought the difficulty might be overcome in other ways than by interception, such as by pre-emption. Welles's remarks concealed to some extent the strength of his objections to any modification of the Panama-zone policy, of which he had been throughout the protagonist, and Mr. Butler's report to London suggested that if the issue were tactfully handled the United States Government might make merely formal objections to British action. He accordingly advised against a *fait accompli*—such as the seizure of the *Ecuador*—while the matter was still under discussion. The Ministry accepted this advice to the extent that it set to work to collect for transmission to Washington full details of commodities 'dangerous' from the point of view of supply to the enemy. Details of cotton shipments from the United States to Russia were telegraphed to the embassy on 12th December and Mr. Butler gave these to Mr. Sumner Welles on the 14th, together with an editorial from the *New York Times* emphasizing the urgency of the matter. He said that, speaking privately, he hoped that if British ships effected interception there would be nothing worse than a formal protest. Mr. Sumner Welles did not respond to this hint; he repeated his previous argument that interception would destroy the security zone and remove any deterrent from German warships operating there, and thought it would be immensely preferable if the British and Canadian Govern-

ments could arrange for one or two ships to effect interception in the Pacific. He wondered whether Clipperton Island could be made to serve as a base for this purpose. The effect of this almost unqualified opposition was that the British Government had to think again about the Caribbean before returning to the charge in the new year.

But early in January 1941 fresh instructions were sent to Washington with regard both to the Caribbean and to the general tightening of restrictions on exports to Japan. By the beginning of November the Dominion, India, and Burma Governments had all accepted the proposed policy on the latter point in principle; but Canada and Australia in particular emphasized the need for securing United States co-operation, while the Netherlands Government was clearly not likely to take any action unless pressed by the State Department to do so. On 29th November 1940 the embassy had been instructed to raise the matter again with the State Department; the reception was not encouraging, as the Americans insisted that the discussions must be kept quite informal for fear that the Japanese would get wind of them and raise a cry of 'encirclement'. On 19th December the embassy had written to the three Dominion legations in Washington, setting out the details of the position and enclosing a draft memorandum for consideration for joint submission to the United States Government. The embassy's proposed bases for a joint policy were,

1. Extension of the United States export licence list to cover all important commodities to all destinations.
2. In general, restriction of exports to Japan to the maximum quantities representing the average trade for 1936-38.
3. More severe restriction on certain key commodities, viz., a complete embargo on iron and steel scrap, nickel, zinc, cobalt, with restriction of jute to fifty per cent. of normal trade.
4. Further embargoes to be imposed only after prior consultation with the United States.
5. China and Manchuria to be included on a similar basis.

The British Government accepted the proposals in substance on 2nd January, but after this there was no further progress until the middle of February. The delay was due to the fact that the embassy's draft memorandum of 19th December had been held up in Ottawa, and only on 15th February was it at last learned that the Canadian Government did agree to the draft memorandum. Thus nearly four months had gone by since the original British proposals were made to Washington on 19th October; Japan had had four months in which to build up her stocks, and it seemed in London that the United States Government was as far as ever from following up its own burst of energy in September and October 1940. And up to this point there seemed equally little promise of action in other spheres of economic warfare.

All this was tantalizing to the Ministry, for the President's lend-lease plans in December showed no lack of boldness or of pro-British sympathy in a closely-related economic field. At this point the brief interregnum following Lord Lothian's death and his replacement by Lord Halifax led to some interruption of business, particularly in the French North-African discussions. Fresh instructions with regard to the Caribbean problem were, however, sent to the embassy from the Foreign Office on 10th January 1941. The *chargé* was instructed to give Mr. Sumner Welles a full summary of information regarding the leakage of American commodities of all kinds via the Far East. Particulars of these were sent at the same time by the Ministry; these included the following suspect shipments during the previous three months to Japan:

Antimony. 148 tons in five ships, of which two were Japanese and one Norwegian.

Carbon black. 3,710 tons in twelve ships, of which six were Japanese and two Norwegian.

Castor seed. 8,552 tons in twenty-one ships, of which sixteen were Japanese, two Brazilian, and one Swedish.

Copper and brass. 11,369 tons in thirteen ships, of which eight were Japanese and two Swedish.

Molybdenum. 147 tons in one Japanese ship.

Mica. 28 tons in three ships, all Japanese.

Nickel. 52 tons in four ships, all Japanese.

Rubber scrap. 6,675 tons in thirty-six ships, of which twenty-four were Japanese, two Norwegian and one Swedish.

Wolfram. 115 tons in five Japanese ships.

Wool. 513 tons in five Japanese ships.

Suspect shipments to U.S.S.R. during these three months included:

Cotton. 26,748 tons in six ships, of which two were Greek and one Yugoslav.

Wool. 698 tons in one Greek ship.

Hides and leather. 6,153 tons in four ships, of which one was Yugoslav and one Greek.

Copper and brass. 2,926 tons, all in United States ships.

A list was given of the commodities which the Ministry would like to have intercepted; these included, in addition to those named above, tanning materials, iron and steel scrap, ferro-alloys, cotton seed, linseed, lead, quartz crystals, casein, fats and vegetable oils, and glycerine. Separate particulars were given of twenty-five shipments through the Caribbean during the previous few months in which there had been adequate contraband-control grounds for detention,

for enquiries, or in many cases for seizure in prize. Mr. Butler was instructed to accompany these figures with an *aide-mémoire* which it was hoped would 'penetrate beyond Mr. Welles'. This was to point out that the absence of effective control at source in the Americas, except in the case of a few commodities, made it essential that this rapidly-growing traffic should be stopped at sea, and the British Government accordingly proposed to intercept in the Caribbean area vessels suspected of carrying contraband which did not belong to any American state. It was earnestly hoped that the United States Government would abstain from any action calculated to hamper these very modified measures of control. He was to make his *démarche* 'as weighty and convincing as possible' and to persuade Mr. Sumner Welles of the importance of the question. The same telegram explained that Clipperton Island (which was some 1,750 miles west of Panama) was completely impossible as a control base. The island was indeed, in the words of an official minute, 'little more than a coral reef round a lagoon pounded by a great surf, very dangerous to approach, harbourless, uninhabited, foodless, shark-infested, foul-smelling, and French'.

The United States Government's attitude continued to be very lukewarm. On 18th January Mr. Butler handed Mr. Welles a memorandum on the Caribbean question on the lines of his instructions; on the 22nd Mr. Hull referred to this memorandum and to another from the embassy about exports to Russia, but he complained of United States difficulties with Latin America, where 'they could hardly allow an American uniform to be seen'. They were taking pains to ascertain exactly what trade was being done between the United States and Russia. By this stage Lord Halifax had arrived in Washington; on 30th January Mr. Welles asserted unblushingly, with regard to interception, that neither Mr. Hull nor he 'thought the quantities which had come to their notice justified such drastic action on our part'. The only suggestion he had to make was a solution by inter-American action; he thought that control should take place at the Panama Canal, and should be exercised by the United States with the consent of the other twenty American republics. Any such arrangement, dependent on the prior agreement of all the twenty-one republics, would clearly take considerable time to complete, and this looked very like a further attempt to postpone action. His request for information in December had already delayed matters for over a month.

The British Government was encouraged to persist by its belief that Mr. Sumner Welles was unduly influenced, as the author of the Panama policy, by affection for his own creation. The importance attached by the Ministry to interception in the Caribbean was explained to Mr. Harry Hopkins in the general statement of the

British plans for economic warfare given to him in February; he appeared to be 'most sympathetic' and said that he personally 'did not appreciate the force of Mr. Welles's objections'. Considerable prominence was given to the traffic in the United States press in general articles and in press messages from London, and it was Lord Halifax's opinion that Mr. Hull and Mr. Welles were considerably behind public opinion and possibly behind even the general feeling in the State Department itself.¹ Lord Halifax was, therefore, instructed to let the President know the anxiety with which the problem was regarded in London, and the state of the negotiations with Mr. Welles; telegrams from the Ministry at the same time gave further particulars of extensive shipments, almost entirely to Japan.

But the President, when Lord Halifax put the matter to him on 8th February, also said that he was not yet convinced of the importance of the trade going to Russia, or that the case was established that vital commodities were going from Russia to Germany. 'You may be right, but I have never seen a case yet that convinced me', he said. At the same time he did not seem at all excited about the possibility of the interception of a few Russian or Japanese ships in the Caribbean area. On 11th February Lord Halifax sent a further memorandum to Mr. Sumner Welles, giving particulars of recent contraband shipments in Japanese ships, and he sent a letter to the President dealing in more general terms with the evidence which Mr. Roosevelt had found so inadequate. He pointed out for example with regard to cotton that in the last quarter of 1940 Russia had imported some 28,000 tons from the United States, although her own cotton harvest was an extra large one and although there was no reason to believe that her normal imports of cotton from adjacent Asiatic countries had been reduced.

My Government have definite evidence of actual shipments from Russia to Germany of over 60,000 tons of cotton in the first ten months of 1940. Russia has committed herself to supply Germany with 90,000 tons of cotton per annum and recent reports have indicated that this figure has been increased to 120,000 tons. The Soviet Government are also exporting cotton to other various European destinations, such as 8,000 tons to Slovakia and at least 6,000 tons to Hungary. It seems evident, therefore, that the Soviet Government imports have been made in order to enable them to replace the domestic cotton which they are supplying to Central Europe.²

There were further exchanges, but on 19th February Mr. Welles gave Lord Halifax an account of a talk with Mr. Roosevelt which

¹ *The Memoirs of Cordell Hull*, ii, 1142, in one brief reference to Caribbean interception, says that 'contraband in this hemisphere was not on a serious scale'.

² In the covering letter Lord Halifax said that Germany had bought \$3 millions worth of rubber in Brazil, and \$1 million worth of this rubber had already reached Japan on its way to Germany, after being carried in Japanese ships via the Panama Canal.

amounted to a final refusal to agree to interception: the President, he said, thought the proposed British action 'exceedingly dangerous' for the reasons previously given.

But, in the meantime, the United States Government had taken action which showed its intention to grapple with the problem on its own initiative and on its own lines. On 17th February it had made a confidential communication to the governments of Colombia, Venezuela, Brazil, Uruguay, and Argentina asking for statistics of shipments during the previous twelve months from their ports of 'contraband and semi-contraband' products to African and Japanese ports, to Chinese ports controlled by the Japanese, and to Vladivostok. The communication emphasized the intention of the United States Government to give all possible assistance to Great Britain, its belief that this policy was fully subscribed to by the governments addressed, and its desire to examine the possibility of stopping any contraband leakage that might impair the British war effort. It therefore went on to suggest that the five governments should consider the imposition of export control of the commodities concerned, the United States Government being ready to buy such contraband and semi-contraband supplies so that the co-operating countries should not suffer financially. When Mr. Sumner Welles told the ambassador of these proposals on the evening of 19th February he said that if the five governments agreed to act, the west-coast governments, which had not yet been approached, might be expected to follow suit. Although this new scheme obviously had startling possibilities there was still much doubt in the embassy and in London as to how far the United States Government was really prepared to go; it was, for example, difficult to believe that it would go far in purchasing agricultural products. It was equally certain that effective action would take time, and the Ministry still hankered after some immediate interception of non-American ships as a deterrent. Sir Geoffrey Knox at Rio de Janeiro considered Mr. Welles's extreme fears concerning Brazil's attitude to be unnecessary. The Foreign Office found the President's attitude very disappointing, but it recognized the great possibilities of Mr. Welles's programme, and was only too willing to give the plan a trial.

There was, then, little to do except to await as patiently as possible the results of the new American initiative. During March it became known that the response of the South American republics was not in principle unfavourable, but they were all awaiting concrete purchasing proposals from the United States. The Brazilian Government did nothing at all to prevent a number of enemy ships from sailing from its ports at the end of the month. On 20th March Mr. Welles told Lord Halifax that enquiries were proceeding, and the response was on the whole favourable, but progress was being held up

in Argentina by the internal political crisis. Lord Halifax said that he was 'profoundly disquieted by the delay', but Mr. Welles once more declined to see the urgency of the case for interception. Eventually, however, he promised to take up any individual case if he were furnished in advance with information of cargoes of vital commodities about to be shipped from particular ports. Accordingly during the following weeks a good deal of precise information was telegraphed to Washington. In general it can be said that by the spring there had still been no effective action, either by direct interception or by United States purchases, to prevent the flow of dangerous commodities from South America to enemy countries or to Japan.

There was equally little progress up to this stage in the plans for comprehensive discussions with the United States about economic pressure on Japan. The matter had, as we have seen, been held up for some weeks pending the agreement of the Canadian Government to the general plan of Commonwealth co-operation, and the delay had enabled Japan greatly to strengthen her war stocks and to build up her position against an eventual blockade. As long as the United States had no systematic policy of economic pressure, this process would continue. On 20th February the Ministry again called Lord Halifax's attention to the need for more comprehensive export control by the United States. The British proposals were, moreover, not confined to export control; special importance was attached to tanker and bunker control, and the government wanted pre-emption in South America, the control of Philippine exports, and the limitation of exports from Japan to be covered as well. On 3rd March Lord Halifax left with Mr. Hull two memoranda, one on the general policy of rationing Japan, the other referring more particularly to exports. He invited the Secretary of State to agree to the general principle of rationing in order that the experts of the two countries could get down to rapid consideration of the machinery by which this policy might be made effective. Hull's reply was unexpectedly favourable; he agreed as to the necessity of finding means of restricting Japan, and also Russia, to normal peacetime supplies, and it was arranged that the experts should get to work without delay.

Moreover it became clear during March and April that the various additions to the United States export-licensing list were at last making it a really effective weapon of economic warfare, although a few very important items still remained uncontrolled. Copper, brass, bronze, zinc, nickel, and potash had been included as from 3rd February; cadmium, carbon black, coconut oil, copra, cresylic acids and cresols, fatty acids produced from vegetable oils under export control, glycerine, palm-kernel oil and palm kernels, pine oil, petroleum coke, shellac, and titanium were included as from 10th March. Jute, lead, borax, and phosphates were added as from 24th March. Several of

these items, such as borax, lead, carbon black, phosphates, and petroleum coke were certainly not in short supply, and had presumably been added to the list for 'economic-warfare' reasons. A further list of fifty-one items was brought under control on 15th April; the most important of these for economic-warfare purposes were animal and vegetable oils and fats, vegetable fibres, petrolatum, iodine, and casein. With this list all but a few gaps in the United States system were covered; the most important items which remained uncontrolled were cotton, wheat, tanning materials, and petroleum (other than aviation fuel and lubricants). The control of petroleum raised a very delicate problem for the British and Netherlands Governments, and was accordingly not pressed at Washington for the time being. It was, on the other hand, obviously politically difficult for the United States Government to control cotton and wheat. There seemed to be considerable administrative confusion at this time in the State Department, so that it was not easy for the embassy to find out how far the restriction of exports was enforced. In a survey of the system made in the middle of March the Ministry concluded that, for nearly all items apart from those which were licensed freely, no licences were granted for Japan; in a number of cases, however, licences could be granted if the political sections of the State Department pressed for them, and there was no information as to how far this happened in practice. If such grants were infrequent the situation was surprisingly satisfactory. This still did not mean, however, that the United States Government was deliberately using the system for pressure on Japan; the great majority of items were either not produced in the United States or were in short supply there, and supply considerations almost certainly still dominated the administration of the system.

So while there was much that was encouraging in the American attitude towards economic-warfare issues there was also much that was puzzling, and, at times, worrying, to the British. Although the United Kingdom Government had repeatedly made it clear since October 1940 that it was prepared to accept the consequences of any comprehensive plans of restriction of Japanese supplies that the Americans might propose, there were still suggestions that it was the British who were holding back; Mr. Hull, for example, told Lord Halifax on 3rd March 1941 that he wished to be assured that 'if for example the United States stopped their own supplies of oil going to Japan we would take steps to prevent the Japanese switching over to Anglo-Iranian (Persian) oil'. Shipments from this source to Japan were in any case negligible, and the whole point of the proposal for comprehensive restrictions was that they should be comprehensive. It was still impossible to say how far the United States Government wished to go, and how far it was yet prepared to depart in any real

sense from the narrower and more defensive aspects of hemisphere defence. This was, however, not necessarily a question of finding out the broad decisions of the President and State Department; it was also a question, as it had been all along, of bringing before the State Department a picture of the whole field and possibilities of economic warfare, and of finding American officials with sufficient authority to take part in such comprehensive planning. The lack of a single body to discuss the plans envisaged by Mr. Hull and Lord Halifax on 3rd March continued to prevent any real progress for some weeks.

We may note here that at the beginning of 1941 arrangements were made for more effective publicity in the United States for British economic-warfare activities. Since July 1940 the Ministry had kept in touch with British groups who were showing concern about the blockade through Miss Craig McGeachy, who had lately come from the League of Nations Secretariat in Geneva, and it was decided that she was well qualified to deal with attacks in the States on an essential weapon of war. She was, therefore, attached to the British embassy in Washington for this purpose, and took up her duties in January 1941. The most important problem with which she had to deal was the 'relief' agitation in which Mr. Hoover took the lead in the winter of 1940-41; this story is told in Chapter XVI.

(iv)

Increasing Collaboration

(April—June 1941)

As it became clear, during the next few months, that the Welles plan for South American purchases was meant seriously, much of the Ministry's uneasiness as to its American relations subsided. The importance attached by the British Government to these relations was emphasized by the appointment of Mr. N. F. Hall, one of the joint Directors of the Ministry, on 20th March 1941, to take charge of economic-warfare questions at the embassy, with the rank of Minister. A number of more junior appointments were also made at the embassy about the same time, and the staffs of the British missions in South America were similarly strengthened.

The problems that had to be solved were, by this stage, much more in the fields of administration and of organization than of policy. Hitherto the United States had been satisfied with the curtailment of supplies to its potential enemies resulting incidentally from export licensing and purchases abroad for its own rearmament programme, and it was not until July 1941 that the first major step was taken, by

the freezing of Japanese assets, to use the economic weapon offensively against one of them. But the integration of Latin American contraband restrictions with United States purchase of surpluses foreshadowed the creation of a system of 'control at source' which could be made to satisfy all the Ministry's requirements, and this was, after Pearl Harbour, to become the distinctive contribution of the United States to the economic blockade. There were, of course, in the fields of policy, ambiguities in the American attitude, and differences of emphasis between the United Kingdom and United States Governments. Some of the American officials tended to be more lenient towards the Weygand front in North Africa than the British, and they were prone to be, in British eyes, over-hostile to Spain and Turkey. They seemed over-sensitive to opinion in Brazil, and already tended to ignore Argentina. In the Far East they were more hostile to Thailand than were the British, and were subject to greater political pressure than the British to be rough with the Japanese. And all the time isolationist opinion in various forms made it unwise for the government to take action which suggested that it was seeking, or provoking, war.

But to British economic-warfare enthusiasts the outstanding feature of American policy at this period was the lack of any sense of target. Having no proper economic intelligence service to make a constant study of the needs and intentions of the enemy, the Administration tended to be haphazard in its decisions and to fail to understand that when the British placed considerable emphasis on technical points this was the result of close and prolonged study, and not a capricious political decision—as its own tended at times to be. The difficulties resulting from this lack of a properly-developed economic intelligence service persisted as late as the end of 1942, although they became less important after the spring of that year. In the spring of 1941 the State Department was still very inadequately staffed for this type of work; old-time officials were in many cases conditioned in their thinking by imperfect knowledge of the goal and methods of the Ministry of Economic Warfare. The reports sent back by the political side of the U.S. embassy in London seem to have been of little help on this point. Material plentifully supplied by the Ministry to various Americans in London—such as Brigadier-General Raymond Lee (the United States military attaché), Mr. Harry Hopkins, and Colonel Donovan—between December 1940 and April 1941, did not reach the State Department until May, when copies were given personally by Mr. Hall to Mr. Acheson.

The need for a more effective and expeditious American organization, and for better liaison in economic warfare with the British, was, however, recognized by many Americans, and in official circles both inside and outside the State Department there were already, by April

1941, various plans afoot to bring such an organization into being. In London Mr. James Somerville, the Commercial Secretary of the United States embassy, had been appointed liaison officer with the Ministry, and Colonel Clabaugh had been sent over as liaison with the United States Export Licensing Department. During his visit to London Mr. Hopkins had been impressed with the possibilities of economic warfare integrated with air power, and he regarded Anglo-American collaboration in this field as a natural corollary to lend-lease. Colonel 'Bill' Donovan, who had arrived in England on 16th December 1940, had also been fully informed about British policy and its aims, and had been further encouraged to attach importance to economic warfare by Brigadier Dykes, who accompanied him on his tour of the Balkans and Middle East. While he had no official position when he returned to the States in the middle of March, he helped to convince the White House and the Secretaries for War and the Navy of the possibilities of economic warfare. The ground had also been prepared by the hard and systematic work of the United States military attaché in London, who had kept the War Department informed about the work and aims of the Ministry, and had convinced some members of that department of the value of collaboration. Furthermore, the Ministry had a really good press in the States. American correspondents in London appear to have had a high opinion of the Ministry's work, and had built up a good reputation for it in the United States press; Miss McGeachy's work was already beginning to influence many leaders of opinion to take a wider view than the Hooverites. Indeed, it was Mr. Hall's opinion that at this time the Ministry had a better-informed press and a readier response from leading journalists in the United States than in England. As most of the necessary economic-warfare measures in which the British were interested touched third powers it was impossible to do much without the full support of the State Department; moreover, as Mr. Hall had accepted diplomatic status and joined the staff of the embassy, it was essential that he should work with and through the State Department. Contact with other departments was, however, essential if real progress was to be made, and the absence of departmental liaison in Washington accordingly caused considerable difficulty. Matters were simplified only when the State Department was prepared on occasion to agree to direct relations between other departments and the War Trade Department of the embassy; this approval had been given in the case of Mr. Stopford's close liaison with the Treasury in financial-pressure questions.

Thus, although Mr. Hall's appointment enabled him to give much helpful advice and precise information to the American protagonists of a centralized economic-warfare administration, he had, like other members of the embassy, to avoid identifying himself with the

various groups and individuals who were planning to control the new organization. There were four principal agencies concerned. First, General Russell L. Maxwell, who under a special directive of the President controlled export licensing in a separate department closely affiliated to the State Department (which had the final authority); secondly, Mr. Will Clayton of the Department of Commerce, who was interested in commodity control and preclusive purchasing; thirdly, Mr. Nelson Rockefeller, co-ordinator of American affairs, who wanted to drive Axis influence out of the Western Hemisphere; and finally Colonel Donovan, who was preparing far-reaching plans that would give him control over the administration of economic warfare, secret service, and political and psychological warfare. In addition, Mr. Acheson, who had recently been appointed to succeed Mr. Grady, was anxious to help, and was concerned lest the multiplication of agencies should lead to confusion and frustration. He was already determined that the State Department should take the lead. Finally, Mr. Morgenthau and the Treasury had demonstrated that they believed in, and were ready to back, full collaboration in anti-Axis measures. During April and May, while Mr. Acheson in the State Department was struggling to build up a minimum staff and to sort out the scattered work being done there, both Mr. Hopkins and Colonel Donovan were proceeding with comprehensive plans of their own. Many of the draft memoranda designed by Colonel Donovan to become presidential orders setting up a new emergency agency were shown to Mr. Hall; he tried to keep economic warfare as defined by the Ministry separate from the Colonel's other interests, as in his view most of the necessary powers to take the action which was needed were already in the possession of various existing United States official agencies, and he doubted the wisdom of reduplicating them along with new powers. This view was shared by Mr. Hopkins, whose discussions with Mr. Hall were directed towards the co-ordination rather than the duplication of existing agencies. The upshot of their discussions was the setting up, on 31st July 1941, of the Economic Defence Board, which was in practice the United States Cabinet, under the chairmanship of Mr. Wallace, the Vice-President, and excluding the Secretaries of Labour and of the Interior.

Although these administrative developments were proof of the growing importance of economic warfare in the eyes of the Administration, and were accompanied by striking progress in certain directions, they did not by any means imply complete acceptance of the aims and methods of British economic-warfare policy. On 21st April a series of secret conversations between British and American experts began at Washington. These were the first comprehensive conversations that had taken place with United States officials on the subject of economic warfare, and speedy progress was made in certain

directions. After a general interchange of views and objectives the discussions turned to the detailed examination of ways and means of integrating the relevant administrative machinery of the two governments. The discussion of problems relating to European countries made rapid progress; by the end of April United States policy with regard to Latin America had also become much clearer. The United States export-licensing list, which already covered over half of United States exports, was to be steadily expanded, and it was almost certain that for European destinations licences would not be issued unless they were accompanied by a valid navicert. The American representatives stated in conversation that provided they were kept informed in general terms about British policy in the issuing of navicerts they would accept them and would not themselves continue consignee enquiries (which they had evidently been making secretly in the past). The basis upon which rations had been fixed, and the reasons for refusal on consignor, consignee, and general statistical grounds were explained to the key American officials, and while no definite arrangements were made they expressed themselves as satisfied. At the same time the embassy was told in strictest confidence that the United States Government was now conducting a very active policy of preclusive purchases in Latin America, and that the 'goal' of the State Department's policy was 'to buy up all strategic materials in Latin America', including Mexico. This information was, however, given very much 'off the record', and the exact nature and proportions of United States policy had still to be discovered as it developed in a rather piecemeal fashion. In the same way Statutory-List questions could not be pressed, as they would require machinery for which the United States Government was not yet ready. Yet it was evident that something like a 'black list' policy must have been developing, for the Export Licence Administration admitted that it had made consignee enquiries when considering export licences for Latin America. The American officials seemed to realize that the British were far ahead of the United States Government in such detailed economic-intelligence work.

After the beginning of May, however, these particular discussions became increasingly desultory, and it was clear, as it had been throughout the winter, that the weapons in the hands of the Administration were still too limited for a thorough-going policy of collaboration in the economic-warfare sphere, and that they could not be publicly increased without at once raising difficult political and strategic problems, particularly in the Far East. So much was this the case that Mr. Hull placed an absolute ban on any discussions between Mr. Acheson and Mr. Hall on Japanese matters; this decision, which was no doubt connected with the secret and semi-official military conversations which had been taking place up to the end of

April, was not lifted until early in July. This prevented any progress in the question of interception. Mr. Sumner Welles did not, however, refuse to discuss cases of interception in the Caribbean, and this led the Ministry to pursue the question with a persistence that the State Department evidently found both irritating and embarrassing. The general confusion was illustrated on at least two occasions.

The more important of these arose over the question of shipments to French North Africa. The British Government had to fall in with the plan of the United States Government to wean the French North African territories from a collaborationist policy by a policy of limited economic aid, and on 9th May the draft texts of an agreement, in the form of an exchange of letters between Mr. Eccles of the Ministry and M. Marchal of the French embassy, was received in London; this appeared satisfactory except for minor points, and the United States Government, influenced by evidence of the help given by French ships to the Axis, agreed to the British views on the shipping question. Two French ships, refugees on the American side, were to leave simultaneously with two French ships from North Africa, and a service of four or six ships in pairs on a shuttle service was to be introduced. Similarly a shuttle tanker service was started, carrying principally kerosene for native and white consumer purposes, but also other petroleum products.

The first east-bound tanker to leave, on 12th May, was a particularly valuable new vessel, the *Sheherazade*. But on 15th May Pétain made an extremely collaborationist speech, in which he announced that, as a result of the negotiations which had been proceeding for some time between the Vichy and German authorities, collaboration would be intensified, and extended to Africa. This speech greatly upset President Roosevelt, who made a sharp rejoinder on the following day. The first reaction of the United States Government was to write off all prospects of an economic agreement with French North or West Africa, and to place armed guards on all French ships in United States harbours. Steps were taken to prevent any United States ships from proceeding to French colonies unless the specific approval of the State Department was received in each case. It seems also to have been the intention of the department that the British should co-operate in these activities, although a sad muddle occurred when the British tried to translate this into action. Mr. Hall wrote of this incident later:

On the evening of that date [16th May] the wrong official in the State Department telephoned to the wrong official in the embassy saying that all previous arrangements were off and that the President wished all French vessels to be brought in. The wrong official of the embassy sent a telegram to this effect to London without prior or subsequent consultation with those who were responsible. Not only were the

French ships, including the tankers, detained, but in addition a libel for debt was placed upon one of the French ships on the shuttle service between the West Indies and New York.

The last action was undoubtedly a mistake, which would have been avoided if the proper officers had been consulted. It illustrated, however, the sort of Blind Man's Buff that was going on inside the United States Administration, and between it and the embassy, and the British action was criticized by the American officials with what was surely unnecessary asperity. Mr. Welles sent for Mr. Neville Butler, the British *chargé*, who visited him accompanied by Mr. Hall. Supported by a 'large phalanx of officers'—including the one who had made the first mistake—Mr. Welles said that he regarded the placing of the libel as so outrageous an act that he had given instructions that no action should be taken on it, and he insisted that it be removed. He also insisted on the release of the tanker and closer co-operation with the United States in North African supply matters. He brushed aside Mr. Hall's observation that libels were placed by private insurance interests, and said that he was fully informed of the close relations between the British Government and the Joint Insurance Committee. The meeting produced some rather sharp language; the British representatives were at a considerable disadvantage as they were not fully informed as to what had happened. They refrained from calling attention to the share of the American official in what had occurred and said that so far as the West Indies service was concerned the British Government fully recognized the dominant interest of the United States Government, and they were confident that some mistake had been made. The libel was lifted within twenty-four hours, and after considerable heart-searchings the *Sheherazade* was released. The tanker did not reappear—when the shuttle service was resumed the French replaced it by a much less valuable ship, a plain breach of the basic agreement, on which the British found it impossible to persuade their American friends to take a firm line.

In the *Sheherazade* case the British desire for effective economic-warfare measures had run counter to both the pro-French and pan-American preoccupations of the State Department. Nevertheless there continued to be a faint hope of United States agreement to interception. In three telegrams of 8th April the Ministry had set out a detailed scheme for the control of shipping to Far Eastern destinations, including a plan for the application of navicerts to the Pacific. Alternative measures whereby the arrangements could be applied in a milder form were also suggested, but Lord Halifax decided that it was better to wait a bit before putting forward any of these plans. The Ministry continued, however, to send information to the embassy, and in the case of important cargo on the *Toa Maru* the

embassy was instructed on 10th May to approach Mr. Sumner Welles. This ship, which was due at the Panama Canal on 17th May, certainly had some highly suspicious items; the Ministry's telegrams said that the Contraband Committee considered that all the following should be seized and that there was good reason to expect their condemnation in the Prize Court:

1. 120 tons edible tallow from Corporation Meat Buenos Aires to order. Since my telegram No. 1817 (Arfar of 12th April) I have learnt that Tokyo informed Mitsubishi Berlin that 575 tierces amounting to 120 tons were being shipped by this vessel.
2. One case industrial diamonds from Reis of Rio to Nippon Menkwa Kaisha. Consignors have been recommended for Statutory List and are known to send diamonds to Germany. Consignees have not been included in the Statutory List solely for political reasons. Germany is known to be obtaining diamonds through Japan.
3. Four cases industrial diamonds from Burgos of Rio, one to K.K.K.K. and three to Mitsubishi. Consignors are on Statutory List and I have conclusive evidence that they have sent consignments of diamonds to Germany and Italy.
4. In addition to cargo reported in the usual way, I have very strong evidence that the ship also carries 34 tons of wolfram ore for Fujita of Dairen for Germany.

Mr. Hall says that when he took this evidence to Mr. Welles personally the latter was 'unusually sympathetic'. He clearly wanted to help, but said he must consult others, which Mr. Hall took to mean the United States military authorities. After forty-eight hours' delay he telephoned saying that he much regretted that he must advise the British, having regard to wider interests, not to stop the ship.

On the previous day the embassy had pointed out to the Ministry that Mr. Welles's promise on 20th March to take up the case of specially suspicious cargoes had referred only to cases where full information was supplied to him before the goods were shipped. The Ministry rightly took this to mean that there had never really been much likelihood that Mr. Welles would take effective action, for the cases in which good evidence was available even before shipment were exceedingly rare. The Ministry still hesitated to believe that the idea of control in the Caribbean must be abandoned. By this stage, however, there was a new factor in the situation: it was clear to the embassy that the imminence of a crisis in the Far East was now strongly influencing the Administration's attitude to all these matters. The embassy, however, noted the interesting fact that although Mr. Sumner Welles was now fully convinced that the Germans would have attacked the Russians before the end of June, thus closing effectively the Trans-Siberian route and making interception in the Caribbean

unnecessary except as a measure against Japan, he did not appeal to this as a reason for non-agreement to interception, as he might well have done. However this may be, the German attack on Russia on 22nd June finally closed the Trans-Siberian channel, and henceforward economic-warfare measures against supplies moving to the Far East could be directed only against Japan. So the question of interception merged into the larger question of Anglo-American relations with Japan.

The growing elaboration of Washington's own plans for economic warfare—which still, however, were devised primarily from the supply angle, and with the main emphasis on defence—was also progressively reducing the importance of the continued American ban on the use by the British of control bases in their own colonies. In the field of export licensing, all petroleum products became subject to licence on 20th June, thus closing one of the few important gaps in the United States system. Cotton was now the most important exception. This did not mean that Japanese supplies of such products would be at once affected; the United States action appeared to be due to the threatened shortage of oil on the eastern seaboard, owing to the transfer of tankers for the British supply programme. Exports from the east coast were now to be made only to the British Commonwealth, Egypt, and the Western Hemisphere. This suited the British Government well enough; it had not hitherto been considered wise to press for the inclusion of petroleum products because of the continued danger that a complete United States embargo might lead the Japanese to excessive demands or an attack on the Netherlands East Indies. A further provision was one whereby the export-licensing system was extended, as from 5th May, to cover all goods normally subject to licence which entered the States in transit to a third country, even if shipped on a through bill of lading. At the same time a bill was put up to Congress to provide authority for the institution of a shipping-control system similar to the British ship-warrant scheme. On 19th May a dangerous gap in the export control system was closed by the extension of the system to the Philippines and other United States territories.

More important still was the fact that it was becoming possible to estimate the true proportions of the 'Welles plan' for the linking of United States purchases with the institution of export-licensing systems in Latin American countries. A United States-Brazilian agreement of 14th May was clearly intended to serve as a model for similar agreements between the United States and other South American governments. The principle of the agreement, which was for two years, was that all Brazilian exports of the commodities which it covered were to be confined to the United States and countries in the Western Hemisphere which had parallel licensing systems; the

United States Government would buy stated annual amounts of these commodities at a minimum price. The commodities, which could be added to, were bauxite, beryl ores, chromite, ferro-nickel, industrial diamonds, manganese, mica, quartz, rubber, titanium (rutile), and zirconium. Negotiations for similar agreements were commenced with Peru, Mexico, Chile, and Argentina.

On 14th June the President issued an order freezing all German and Italian assets in the country and those of occupied countries not covered by previous orders. Subsequently Russia, apart from the Baltic States, was excluded from the order, and general licences were granted, on conditions, to Switzerland and Sweden. But there was, no doubt, much truth in Mr. Morgenthau's remark a few days earlier that little purpose would now be served by the extension of freezing since most enemy funds had left the country. Nevertheless the extension of the order was welcome to the British Government as a means of tightening the financial blockade. In order to co-operate to the full, the Bank of England, at the request of the Ministry and the Treasury, issued a notice on 16th June that no dollar balances held on behalf of persons not resident in the sterling area might be drawn on without the prior permission of the Bank. The United States Treasury said that it would rely largely on the Ministry to detect evasions of the order, and asked the Ministry to increase as much as possible the information sent. American banks were advised to use the British Statutory List as a guide in deciding whether firms were enemy-controlled. The omission of South America and Japan from the scope of the order was a serious gap, but events were moving rapidly in the Far East, and the freezing of Japanese assets by Britain and the United States in July ushered in something very much more momentous than a mere tightening of the financial blockade.

CHAPTER XV

ADJACENT NEUTRALS: THE IBERIAN PENINSULA

(i)

The Beginnings of a Policy

UNTIL the fall of France Portugal and Spain were not, in the strict sense of the term, 'adjacent neutrals'. Contraband goods could reach Germany from Spain only if they were carried by air, or smuggled across the Gulf of Genoa (although the French patrols had left much to be desired). Portuguese trade with Germany also had to pass either by sea and land routes under Allied control, or indirectly through neutral countries such as Spain and Italy. The French collapse placed the Germans on the Pyrenees, and Italy was now a belligerent; the Iberian Peninsula at once became Germany's most hopeful channel for non-European supplies and for her own exports. The War Cabinet's decision on 13th July 1940 to ration the two countries was, therefore, inevitable; whatever the risks, a vast contraband leak must be prevented, and moreover Spain must not be allowed to accumulate stocks which would tempt her into war, or which would tempt the Germans into Spain. Portugal was less directly exposed, but it was impossible effectively to control trade across her frontiers into Spain, and so the Iberian Peninsula had to be treated as a whole. Neither country could be expected to accept rationing with a very good grace. In these apparently unfavourable circumstances the British could detect only two hopeful features. The first was the genuine aversion of the Spanish people, economically and emotionally exhausted by the civil war, to further adventures; the second was the traditional Anglo-Portuguese friendship, which it was hoped would survive the Allied defeat. It was the British Government's hope that economic assistance to Spain would tilt Spanish policy towards acquiescence in British economic control.

British, and to a lesser degree French, policy during the first ten months of the war had prepared the ground for this policy of assistance, and the policy took more definite form at an opportune moment when Mr. David Eccles reached agreement with Portuguese and Spanish representatives in Lisbon on 6th July 1940. Before this there

had been separate discussions with the Spanish and Portuguese Governments for the conclusion of war-trade agreements.

France had taken the lead during the first months of the war in negotiations with Spain, but these had made slow progress, and the British Government had then gone ahead with an economic agreement of its own. The question of contraband control had not been lost sight of, but it had been thought sufficient, in the war-trade agreement which was concluded in February 1940 as part of this group of agreements, to obtain guarantees against the re-export and transit of the more important goods imported into Spain. The dominating factor in Spanish policy was the dangerous economic crisis which had followed the ending of the civil war in April 1939. The rise in the cost of living had far outstripped increases in wages; there was a severe food shortage in certain districts as a result of transport difficulties, financial stringency, and the decrease in production, and the Franco Government's measures of reconstruction, which in more normal times would presumably have brought about a progressive improvement, had been frustrated by the outbreak of a general European war in September 1939. The Anglo-Spanish agreements which were signed on 18th March 1940 had accordingly included:

1. A trade and payments agreement which provided for the establishment of a clearing system to secure the repayment of accumulated debts due to the United Kingdom and, simultaneously, to finance current trade with the sterling area;
2. a loan agreement under which Spain secured a sum of £2 millions for expenditure in the sterling area;
3. an agreement to pass to Spain through the Allied controls certain goods which could not be re-exported except with Allied approval.

The negotiation of these agreements had been protracted and subject to much opposition by those Spaniards in high places who were bent on a policy of close co-operation with Germany and Italy. By June 1940 various firm promises had been made by the British Government as to the supply of certain commodities, although little had been delivered. Early in June the Spaniards had, however, produced a detailed list of commodities which they wished to purchase with the £2 millions loan, and although the agreements got off to a shaky start they were to provide the foundations for Britain's economic relationship with Spain throughout the war.

Negotiations with Portugal during the winter of 1939-40 had made little progress. For Portugal felt that she must move warily in her relations with both groups of belligerents. The Germans had made adroit use of the Spanish Civil War to gain influence over the minds of the Portuguese governing class, to infiltrate the universities, and to

suborn the police and the press; they had made strenuous and on the whole successful efforts to increase their share of Portuguese foreign trade, their prestige rose after Munich, and an increasing number of Portuguese intellectuals were inclined to accept Germany, rather than the ancient ally, as the real bulwark against bolshevism. The Portuguese Government was as much concerned as ever with the intentions of Spain, and the Spanish-Portuguese Treaty of Friendship and Non-Aggression of 17th March 1939 was a safeguard to the Portuguese frontier which depended very greatly on a sympathetic acceptance of the totalitarian *Weltanschauung*. On the other hand, Portugal was still dependent on Britain to a remarkable degree. The traditional diplomatic links, and the more modern commercial and industrial ties, were indeed unique. Great Britain had been for many years the chief source of Portugal's import requirements, and also her best customer; English firms and concessionaires took a leading part in the wine and mining industries; British enterprise had helped to develop the natural resources of the still extensive Portuguese Empire in the interests of both British and Portuguese shareholders, and Portugal had retained her empire under the shield of the British navy. The masses appeared to have retained much of their loyalty to the ancient alliance.

The advent of Dr. Oliveira Salazar and his form of government, although unquestionably patriotic, had considerably modified the traditional relationship with Britain. Courteous, informal, self-effacing but by no means inaccessible, he was a dictator without arrogance, a benevolent despot, or, in Lord Templewood's words, a philosopher-king; there were those on the Allied side who regarded him with less enthusiasm,¹ but all agreed that he was among the more sober and hard-working of modern dictators, and although the immense personal responsibility which his sense of duty imposed on him made him somewhat unapproachable in mind, he was not so in person. Already before 1939 he had been responsible for great economic progress in his country, and he was particularly proud of the recent revival in the colonies, whose valuable products—coffee, maize, sugar, cocoa, oilseeds, cotton, and sisal—not only helped his strenuous efforts to raise the standard of economic life at home, but yielded enough for a considerable re-export trade, which the Allies now wished to curtail. It was, then, to be expected that Portugal

¹ Cf. the American work, by B. D. L. Gordon and R. Dangerfield, *The Hidden Weapon*, p. 103, with its comments on Dr. Salazar's 'romanticized medieval paternalism'; . . . 'his insistence on neutrality added immensely to his bargaining power; it always costs more to buy a man of principle'. For a more favourable estimate see Lord Templewood, 'Portugal Revisited' (*Spectator*, 11th July 1947). Dr. Salazar for his part remarked on one occasion in 1944 to the British ambassador that his sovereignty and neutrality were not for sale for all the dollars in the world, and that it was harder to convince the Americans than the most refractory pupils that he had had to teach at Coimbra University. There is ample background material in H. V. Livermore, *A History of Portugal* (1947), particularly pp. 462-64.

would cling to her neutrality; that she would reaffirm her traditional friendship and her desire for her existing trade with Britain, but would resist any attempt to reduce her trade with Germany.

Portugal was asked to sign a war-trade agreement on 27th September 1939, and on 5th October Count Tovar,¹ the head of the economic department of the Portuguese Foreign Office, undertook to start immediately upon negotiations for a comprehensive agreement. But this was in reality a rejection of Britain's immediate blockade demands; on 18th October Count Tovar excluded from the negotiations any arrangement regarding trade with Spain, and he would not admit that Portuguese trade with neutrals could be interfered with. After whittling down its demands the Ministry presented a very modified scheme on 16th November. Early in January 1940 the Portuguese concluded commercial agreements with Spain and Italy (under which Italy contemplated the purchase of exceptional quantities of olive oil, sardines, cork, etc., from Portugal, and of oilseeds and other products of the Portuguese colonies). It was hoped that the way was now clear for the British negotiations; but the Portuguese reply on 26th January at once killed this hope. For a time the Ministry ceased its efforts, but a further attempt was made in April, and Mr. Eccles, who had been concerned with the recent Spanish negotiations, was sent to Portugal to explore the possibilities. He took with him a new draft agreement for submission to Dr. Salazar, but was soon convinced that any written agreement at this stage was impossible.

These abortive discussions had brought to the surface most of the problems of Anglo-Portuguese relations. Great Britain had been unable before the war to meet Portuguese requests for materials for rearmament, and Dr. Salazar took the line that without such aid his almost defenceless country could not afford to antagonize Britain's enemies. The trade agreement which he visualized in October 1939 included the supply to Portugal of such essential goods as coal, copper, and tinsplate, and the maintenance of Portuguese exports of pitwood, rosin, turpentine, tinned fish, wolfram, and wine; he would expect the British Government to take Portuguese exports which were stopped from going to Germany. The British on their side wanted the Portuguese to refrain from extending financial assistance or credits to Germany, not to use British tinsplate for the export of tinned goods to adjacent neutrals in excess of normal exports, and to institute an export-licensing system for an agreed list of commodities. No formal agreement on these lines could be secured; even the export-licensing system was dismissed as impracticable by the Portuguese in January, and the British were asked on the other hand to give free

¹ Director-General of the Economic and Consular Sections of the Portuguese Foreign Office.

passage through the controls for certain goods to and from the northern neutrals. The position seemed to the Ministry to be highly disappointing in the early months of 1940, for there was evidence that Portugal was becoming increasingly an entrepôt for German trade. A large increase in the volume of trade was provided for in the Italian agreement, and goods of value to Germany were going to Italy in large quantities. A growing number of small but valuable goods was entering and leaving the peninsula by air; it was known, for instance, that five tons of Portuguese wolfram were being sent per trip on the German air line from Spain to Italy. Nevertheless the situation was more favourable to the Allies in many respects than the Ministry realized at the time. In the financial sphere in particular the Portuguese authorities were meeting the essential British requirements.

A more positive approach to the Iberian problem came in May; its primary object was to wean Spain from Axis influence by a policy of economic support for her war-damaged economy, but it provided also a constructive step in Anglo-Portuguese relations, and was sympathetically received by Dr. Salazar. A memorandum and a personal letter from Lord Halifax to Dr. Salazar on 22nd May referred to the danger of an exploitation of Spanish economic distress by foreign agents, and said that the British Government was prepared to make available at Spanish ports, before the end of June, 100,000 tons of wheat.

The British Government was ready to assist Spain to buy Portuguese colonial products, subject to a guarantee of non-re-export, by agreeing that payment for them should be made through the sterling area account of the Anglo-Spanish clearing from the balance available to Spain. The list of colonial products would be agreed by the three governments, and transported, it was hoped, in Portuguese ships. Regarding Dr. Salazar as the strongest factor making for peace in the peninsula, the British Government did not hesitate to ask him to undertake the difficult and delicate task of securing from Spain certain practical assurances concerning her intention and ability to remain neutral. An agreement for the exchange of coal and pit-props, which had been under negotiation since March, was signed at the Cortes on 7th June, and in a general discussion afterwards Dr. Salazar told the British ambassador and Mr. Eccles that he had placed the British proposals before General Franco in person, and had heard on the previous day that the Spanish Government was definitely interested. He had 'very gingerly' broached the question of assurances, and he made it clear later that he had requested these in the name of Portugal only and had had a favourable reception. He wished these negotiations to be kept quite separate from the economic discussions. He was encouraging in his estimate of Spanish reactions

to the Axis: he thought that the 'nobility of the Spanish character' resented the Italian tactics, and he also thought that although Spain nursed her long-standing claim to Gibraltar her pride would not allow her to be offered it by a third party—Germany or Italy.

The British plan was, in fact, successfully executed. On 6th July, after discussions in Lisbon, Mr. Eccles reached agreement with the Portuguese and Spanish representatives on a list of colonial products which were to be bought f.o.b. Lisbon by Spain, through the sterling account B of the Anglo-Spanish clearing. Notes were exchanged between the British ambassador, Dr. Salazar, and Don Nicolas Franco, the Spanish ambassador, on 24th July, providing the necessary credit facilities in the Anglo-Spanish clearing for these Portuguese colonial products. The total at this stage was £600,000. Detailed negotiations followed and there were various alterations and extensions to the original list. The position at the end of September 1940 was that payment up to £728,000 had been authorized, and actual payments made, as follows:

Tripartite Agreement
(United Kingdom, Spain, and Portugal)

<i>Goods</i>	<i>Quota</i>	<i>Advices of payment received</i>
	£	£
Castor oil seeds . . .	42,000	42,000
Copra . . .	123,000	128,204*
Maize . . .	175,000	51,245
Groundnut oil . . .	253,000	104,000
Coffee . . .	80,000	3,595
Sisal . . .	15,000	14,720

*One advice £5,355 not paid.

By this stage the political situation in Spain had changed somewhat, but in various ways the policy of economic assistance continued.

The assurances asked of Spain by Dr. Salazar were also forthcoming. On 6th July the Portuguese ambassador in Madrid obtained from General Franco a promise to go as far as possible with a Spanish guarantee of Portuguese-Iberian independence. Although General Franco had declared himself a non-belligerent on 12th June he signed with Dr. Salazar on 29th July a protocol (drafted by Dr. Salazar) to the Spanish-Portuguese Treaty of Friendship and Non-aggression of March 1939. This provided for consultation as a means of safeguarding their mutual interests and independence. As it reaffirmed existing treaties, conventions, and undertakings with third states, and so recognized the obligations of Portugal towards England under the ancient alliance, it was a noticeable strengthening of the impulse towards neutrality by the two powers. The Germans in Lisbon used their considerable influence over the press to prevent adequate publicity being given to the Anglo-Spanish-Portuguese accord, and in spite of remonstrances from Dr. Salazar the Spanish public were not

told of the help which was being given them by the British Government. The Spanish press under Señor Serrano Suñer's order was running at the end of July a campaign accusing the British of starving Spain. This obvious fury at the agreement was a fair measure of its value. But German economic and political penetration in the peninsula remained extremely powerful, and these were merely the first shots in a grim struggle.

(ii)

Portugal: Rationing Problems

The Portuguese and Spanish Governments both entered *pro forma* protests after the British announcement of compulsory navicerting on 30th July, but agreed to try the system out in practice. The Ministry's original idea was to fix Portugal's net ration for internal consumption and to allow her to purchase from her own colonies or elsewhere, on the understanding, however, that any goods shipped to Portugal and not covered by a navicert would be counted against the ration. In this way unauthorized re-exports would result in less for the home market. It soon became clear, however, that it was not going to be easy to persuade the Portuguese Government to accept quietly the accumulating of colonial surpluses; almost the whole of Portuguese pre-war transit and re-export trade had been with Germany and Italy, or with countries now enemy-occupied, and there were few markets unobjectionable from a blockade point of view.

The full intricacies of the position did not, however, become apparent for some months. During the first ration period (August–October 1940) little progress was made in Anglo-Portuguese discussion as to the size of the Portuguese quotas, and these were therefore applied unilaterally by the British Government in accordance with a list presented to the Portuguese on 14th August. Portuguese ships in general made a proper use of the navicert system. The U.K.C.C. made a start by sketching out a programme of operations, and considerable pre-emptive purchases of wolfram were made independently (see p. 528). It became necessary to close some quotas before the end of August but no complaints were made, and generally speaking the new system was introduced with little difficulty. During September it was decided to prohibit further petroleum imports until agreement had been reached.

Portuguese friendship was shown in an active form at this period by the conclusion of an Anglo-Portuguese payments agreement which was thrashed out between the two national banks in September, and embodied in an exchange of notes on 20th November 1940.

The matter had been under discussion since the early summer, and in spite of the depressing military and political situation of the United Kingdom the Bank of Portugal concluded the agreement for the duration of the war. By it the Portuguese undertook to make available the escudos required by the United Kingdom; all trade and financial debts between the escudo and sterling areas were to be contracted in sterling. The Bank of England had to give an exchange guarantee in terms of gold, as sterling was a reserve currency for the Portuguese, but the British were very ready to do this as they were not called on to repay any of the debt which would undoubtedly accumulate until a period of five years after the conclusion of hostilities. At the time the British negotiators anticipated that the Portuguese might run up a balance of £10 millions or £15 millions; the total at the end of the war was in fact about £80 millions, but the Portuguese throughout made no attempt to escape from their bargain. This was clearly an arrangement of inestimable value to the British in their pre-emption campaign during the war, and it was recognized as such at the time. Successful pre-emption called for ready cash and a good purchasing organization; the payments agreement guaranteed the former of these to the British.¹ On the other hand the Bank of Portugal finished the war with no lire or reichsmarks. In Portuguese financial circles, and these included Dr. Salazar's own activities as a financier (there was at the time no Minister of Finance), good-will towards Britain was at its height.

In other directions, it is true, things did not go so smoothly. Probably the main reason for the Portuguese silence on rationing matters in August and September was simply the holiday season; but the embassy had little doubt that the Portuguese might also be reluctant to commit themselves for fear of inducing Axis pressure in retaliation. The hope of wearing down British resistance, the various manifestations of Portuguese aversion to interference with their internal economy, the attempt to wring lenient economic terms from Britain as a reward for political friendship, the desire to keep the situation fluid in order to profit, or at least not suffer, from the war—all these factors were certainly present. There was some reason to think that the Portuguese were not at first fully alive to the fact that the British rationing policy was intended to be taken seriously, and in view of the leniency with which the blockade had been carried out in the first phase of the war this is perhaps not surprising. There was ample evidence that goods were still going to the enemy and in transit across Portugal to Hungary and Switzerland in increasing quantities. It seemed likely that some at least of these goods, which included sugar, castor-oil seed, cocoa, and coffee, would find their way to the enemy. During the first rationing quarter, however, the

¹ The escudo rate was 100 to the £1 throughout the war.

Ministry still assumed rather hopefully that as rations were based on domestic requirements this undesirable traffic would drop off as existing stocks became exhausted. The U.K.C.C. was already beginning to help the process of exhaustion.

It was only after considerable pressure from the British embassy that Dr. Salazar was induced to discuss the rationing figures; at the beginning of October he appointed a rather imposing delegation competent to negotiate, and the Ministry had to agree to the setting up of a corresponding British delegation under Sir Noel Charles, although it regarded this machinery as unnecessarily clumsy and elaborate. It was the oil quota which at this stage gave the Ministry the greatest concern, and its representative, Mr. R. M. C. Turner, who had successfully negotiated an oil agreement with Spain (see pp. 534-8), arrived in Lisbon in mid-September. The petroleum negotiations continued in a rather desultory fashion until the following February 1941, when a fairly comprehensive agreement was concluded. The contrast between this and the Spanish oil negotiations, which had been concluded in a few weeks in spite of very much more complicated issues, was marked.

In July the Ministry had fixed the quarterly petroleum quota at 65,000 tons, and it was prepared in principle to guarantee sufficient tanker tonnage to carry this amount. It was also hoped that the supply of aviation fuel to the Italian air line, LATI, could be cut off, and that a Portuguese undertaking to this effect could be secured in return for concessions about tankers. The primary difficulty from the Portuguese side was that their petroleum laws provided for stocks (an untouchable reserve equivalent to four months' supply) considerably in advance of those allowed by the British ration figure.¹ An organization known as SACOR² had been developed during the previous three years for the purpose of refining and storing oil in Portugal, in contrast with the subsidiaries of the Vacuum Oil, Atlantic, and Shell companies, which imported only refined oil, and held stocks only for current consumption. Half the shareholding of SACOR was in the hands of the Portuguese Government. Its concession entitled it to supply half the Portuguese domestic consumption, which totalled about 200,000 tons a year. The 100,000 tons which SACOR refined was distributed by the other three companies, which had been previously established in the market and undoubtedly resented the intrusion of this domestic competitor. The Ministry considered its quota of 65,000 tons a quarter to be approxi-

¹ Under the Portuguese petroleum law the companies had to maintain minimum reserves equivalent to one-third of their annual sales in Portugal, Madeira, and the Azores. They were not allowed to touch these reserves and therefore normally maintained in addition commercial reserves equivalent to between two and three months' requirements.

² Sociedade anonima concessionaria de refinação de petroleos em Portugal.

mately equal to consumption, including bunkers, and to be sufficient to allow Portuguese stocks to be maintained at their existing figure of about 50,000 tons; this quota figure would not, however, allow SACOR to accumulate the reserve stocks which the Portuguese Government required it to build up by the end of the year.

A deadlock over the question of oil stocks had been reached by the middle of October. The Ministry's aim was to keep SACOR's stocks at their existing figure of 25,000 tons (including both crude and products) and to bring the stocks of the foreign companies down to 25,000 tons. One difficulty was that SACOR produced a surplus of fuel oil and gas oil, and that Shell, which conducted the bunkering trade, was not willing to buy this surplus, because it found it cheaper to import its own fuel oil. The Ministry felt it desirable that SACOR should sell its surplus stock locally, and that, if it succeeded in doing so, it should be allowed further cargoes to enable it to keep its stocks up to the agreed level. As the companies' stocks were at about 42,000 tons (excluding bunkers), it proposed to refuse navicerts to the companies until about March 1941. This process of reduction of stocks would be rather slow; it was estimated that they would still be about 65,000 tons at the end of 1940. But as the companies had excessive stocks there would have been no satisfactory way of producing an overall reduction quickly except at SACOR's expense, a course which would have had political disadvantages hardly justified by the small possible gain. Portuguese stocks of lubricating oils were also considered to be excessive, and this was Germany's most important oil deficiency.

It was only after some very stubborn resistance on the Portuguese side that Count Tovar allowed himself to be persuaded, towards the end of October, that the British programme was not due to a mere desire to upset Portuguese oil legislation for fun, but was part of a general policy laid down by Britain and endorsed by the United States. On Count Tovar's suggestion the British put forward a recommendation that legal reserves should be included in total reserves (thus keeping stocks at the equivalent of four months' consumption), and this was accepted in principle on 31st October. More delays followed, however, apparently because the Portuguese hoped for a time to exert pressure by suspending re-exports of aviation spirit to Gibraltar. But this device failed, and by the beginning of December draft letters setting out mutual demands and concessions were ready for discussion; they received Dr. Salazar's general approval by mid-January 1941.

The Ministry had not been prepared to include in the agreement an undertaking to use its good offices with the United States Government to facilitate supplies, and it was not prepared, if SACOR continued to make lubricants from imported crude, to grant any further

navicerts for lubricants until stocks of these had fallen to 3,300 tons. But if SACOR gave the necessary guarantee it was prepared to allow immediately an importation of 200 tons a month. The Portuguese accepted these two points with considerable reluctance, and the Ministry agreed, also with reluctance it must be said, to a total stock figure of 78,000 tons, made up as follows:

Crude petroleum and products other than lubricating oils and aviation spirit	69,500 tons
Lubricating oils	3,300 tons
Aviation spirit	500 tons
Ships' bunkers	5,000 tons
	<hr/>
	78,300 tons
	<hr/>

The Portuguese undertook not to permit the export of these commodities, nor of products derived from the crude oil; and they undertook that these imports should not be supplied to non-Portuguese aircraft, either in Continental Portugal or elsewhere. On the other hand, the Ministry had to agree that non-Portuguese aircraft could import and stock necessary supplies, and that these should be excluded from the allowed stock figures. The Portuguese refused to agree that oil should not be supplied except to Portuguese ships and those notified as warrant holders; its opposition to this 'bunker clause' was on the ground of a moral obligation under international law to help a friendly ship 'in distress'. What was a ship in distress? Would the mere fact that a ship—perhaps a German ship—could not proceed without bunkers constitute distress? This matter was, perhaps, one of *amour propre* on the part of Dr. Salazar, and as the Ministry had alternative means of pressure it announced on 7th February 1941 that it would waive the bunker clause but would secure guarantees from the oil companies, which it counted on the Portuguese Government not to nullify by other means of pressure.

Meanwhile a solution, of sorts, had been found for other rationing problems. In the autumn of 1940 the immediate problem had again been largely one of stocks.

On 14th October the Ministry had closed until further notice the quotas for linseed and linseed oil, castor seed and oil, and other vegetable oils and oilseeds; as a result of this pressure the Portuguese Government undertook at once to control the re-export and transit of certain goods, as from 21st October. But it was not prepared to discuss the existing stocks of goods on the export-licensing list, and if this attitude were maintained the Ministry would have to debit these stocks against the domestic ration.

Furthermore the Portuguese wished to build up existing stocks in certain cases; stocks of phosphates, for example, had been seriously depleted as the result of the cutting off of the French-African supply for three months just when it was needed, and the Ministry's quotas

had not even mentioned other fertilizers, of which requirements were estimated by the Portuguese at 94,000 tons.

But above all there was the problem of general policy which arose from the position of Lisbon as a free port under Portuguese law. Goods could be unloaded at Lisbon in bond and then re-exported without restriction to any destination; and as for colonial stocks, much of these could not be stored in the colonies owing to the climate, while the Lisbon banks would advance money against stocks held in Lisbon, but not those held in the colonies. It was obviously not possible for the British to agree to the accumulation of large stocks in Portugal which would tempt the Germans, and the Portuguese seem to have been in considerable sympathy with this attitude.

The first substantial step forward was taken in mid-October when the two delegations in Lisbon, after discussion, proposed the formation of a special company to act as consignee for colonial produce shipped to Lisbon for re-export. Shipments to Portugal would be consigned either to this company, or to private importers, in which latter case they would be included in, and only allowed up to, the extent of the ration. The Portuguese Government would be notified of the shipments after the grant of navicerts or export licences, and would take the necessary steps to protect the domestic consumer by seeing that such shipments were not re-exported. Consignments for the special company would be held in bond and only taken out (whether for re-export or for import into Portugal) after the consent of the Ministry had been obtained. The Ministry made no objection in principle provided it was clearly understood that the re-export ration must be based not on Portugal's normal re-export figures, but on the figures of her re-exports to safe destinations; and that the quantities of goods in bond at any time must be limited to an agreed stock figure. But the question of the size of the stocks to be held in Lisbon remained unsolved.

The Portuguese continued to insist that goods imported before 1st August must be regarded as immune, and that, in any case, no reliable figures for these were available. Portuguese exports were still reaching Germany and the Ministry was obliged to close further quotas for the end of the year. Ill-feeling was growing amongst colonial exporters. Dr. Salazar was clearly worried over the mounting colonial surpluses, and considerable publicity was given to Portuguese complaints in November. The Ministry's action in facilitating the acquisition of Portuguese colonial surpluses by Spain had been evidence of its willingness to be helpful, and it would suit all parties if further quotas could be opened for Spain. But Spain had no more sterling for the purpose. In general, too, the problem of Portuguese colonial surpluses was recognised to be a part of a world-wide pro-

blem which might be alleviated by judicious measures, but which was in part the neutral's punishment for continuing to live in a world at war. During December the quota list was thoroughly revised to meet, as far as possible, the legitimate demands of the Portuguese domestic situation, but the Portuguese continued for some time to argue that the stocks of colonial produce should be left out of account altogether, and that the new agreement to come into force with the setting up of the company should start with the quotas open and intact.

Throughout December 1940 and the greater part of January 1941 a real sense of crisis and deadlock continued; on 9th December Dr. Salazar talked sadly and reproachfully to Sir Walford Selby, whose term as ambassador was ending, and to the new ambassador, Sir Ronald Campbell, he talked for hours on the same lines. Sir Walford Selby thought it would be very difficult to move him, and that as an ally Britain should work 'on the basis of a measure of trust'. The Ministry, however, believed that it *was* possible to convince Dr. Salazar, and Sir Ronald Campbell, on 14th January, presented a comprehensive statement of British rationing policy, asking for the acceptance of the quota system, the prohibition of re-exports to undesirable destinations, and the avoidance of excessive stocks. The statement referred to the recently revised quotas, and made various practical suggestions for the disposal of colonial produce. It offered also to make sterling available for Spain to buy sisal, sugar, and maize. On the following day Dr. Salazar provisionally approved these proposals, and welcomed the revised quotas; he also promised to give a guarantee of non-re-export of goods from overseas, other than colonial products. Export licences would, nevertheless, he said, not be granted for the latter, and he wished it to be understood that his refusal on this point applied only to a *written* guarantee. He wished the British to trust him over this, and not to 'look under saddles or in the ears of donkeys as they crossed and re-crossed the Spanish border'. He did, however, commit to paper a reply (25th January) to the British proposals in which he promised the limitation of stocks, the institution of the full navicert system in the Portuguese colonies, and a guarantee against the re-export of goods from foreign sources, and he said that, with regard to colonial produce, measures of Portugal's own volition would be quite as satisfactory as a guarantee. Finally, he wanted this exchange of views to be accepted by the British Government as an adequate settlement, to be followed by the opening of the quotas for January–March 1941, 'without prejudice to corrections or additions to be introduced by subsequent discussions'.

Since the Portuguese Government had apparently met the Ministry's requirements except for a formal guarantee against re-export of colonial produce (and, in the petroleum negotiations, except for the bunker clause), the exchange of notes was accepted as an agreement

in principle (28th January). The unsatisfactory nature of such an 'agreement' seems obvious; but political tension at the time was acute. The interpretation of the agreement led, however, to difficulties for years to come. 'They continued to re-export colonial and other goods,' said a later M.E.W. comment, 'and we continued to close quotas in retaliation.'

This was certainly the position during the next few months. The Portuguese seemed to be avoiding further commitments in the hope that the full implications of the 'agreement in principle' could be dodged; the British were determined not to relax rationing control without adequate guarantees. A hurricane swept Portugal on 15th February and did some £10 millions worth of damage, and an attack of nerves which followed perhaps helps to explain an outbreak of abuse in the press against the British blockade. Dr. Salazar complained on 23rd February that in spite of the agreement, quotas had not all been reopened; at the same time he shocked the Ministry by saying that his assurances did not cover goods lying in the free port of Lisbon. It seemed clear, too, that he had not explained the nature of the agreement to traders, although some of them, in anticipation of its terms, were hurrying to forestall its application by increased trading with Germany, chiefly in coffee, sisal, cocoa, fish oil, palm oil, and cotton yarns. In a review of the position on 16th March the Ministry showed that some quotas (e.g. oilseeds, hides, and skins) were closed pending information from the Portuguese Government; others (e.g. cocoa, coffee, sisal, and beeswax), because of large stocks existing in Lisbon; and others because the rations for January–March had been exceeded. It insisted that none was closed for retaliatory reasons. On 20th March a memorandum from the embassy stated the Ministry's concern at the free port announcement, and asked for particulars of stocks there.

This did, at last, produce the basis of a solution. But first the British officials had to listen to some further animadversions by Dr. Salazar on British conduct. 'We were', he said, 'a queer people who thought straight on first principles and then gave ourselves every imaginable handicap in carrying out our policy. Our plans to help neutrals in economic distress, and in danger of being dragged into the German camp, were absolutely right. In the application of this policy, which was essentially to make friends, we had lost our famous common sense and employed the wrist-twisting dodges of schoolboys.' But he agreed that Britain must hit her enemy where and when she could, and that it was the machinery of the blockade, and not its object, with which he found fault.

A long Portuguese memorandum, dated 31st March (it apparently reached the embassy on 9th April), discussed the question of stocks at length, and after insisting that there was on the Portuguese side 'no

legal and practical possibility' of regarding the blockade as being extended to all the goods already in the country before the blockade or even before the agreement, gave figures as to the extent of the stocks in question. The embassy learned for the first time of a decision by Dr. Salazar on 30th December 1940 that the following goods were considered not to be affected by the Export Licensing Order of 21st October: (1) goods already cleared by the Customs, for re-export or transit, before the entry into force of this Order; and (2) goods which reached Continental ports before August 1940, on confirmation that they did not come destined, from their origin, for Portuguese consumption. The memorandum concluded by suggesting that the difficulties and anxieties of the British Government could be removed:

1. If the British Government do not raise difficulties in the way of the re-export of the goods affected by the ministerial decision of 30th December;
2. by fixing by agreement between the two Governments the stocks of colonial products which may exist at any moment in the country consigned to the *Companhia de Exportações do Ultramar Português*, for which it now makes a concrete proposal;
3. transferring to this Company the actual stocks less the quantities foreseen in (1), whereby the transition and adaptation of the actual situation to the system foreseen in the agreement of 28th January will be effected;
4. dealing with foreign goods lying in the port of Lisbon and available in the same spirit of this statement and as proposed above;
5. deducting from the quotas of goods to be imported the quantities for foreign goods which, while in the warehouses, have been released for home consumption.

On this basis a settlement was reached, although the Ministry had to give away a good deal. It agreed, as regards colonial products, to accept the position that the export of some 10,000 tons of goods under the decision of 30th December had already been authorized; it was understood that the balance of these stocks of colonial produce would be transferred to the 'Tovar company' and would not be re-exported without specific British approval. The company, which by this stage had done little except find itself a name—*Companhia de Exportações do Ultramar Português* (C.E.D.U.P.)—produced another deadlock over stocks; Dr. Salazar proposed 50,000 to 70,000 tons; the Ministry's proposal, which amounted to only 13,000 tons, filled the Portuguese with dismay, and although the Ministry was prepared to accept the embassy's suggestion that 'reasonable' stocks would be between 20,000 and 25,000 tons, with foreign stocks additional to the figure, Dr. Salazar continued to refuse. His sorrowful comment was, 'for the sake of some paper theories about what did and what did not tempt

the German Army, we were about to upset the standard of living in Portugal'. Here we must leave the question of stocks for the time being, as the haggling continued beyond the period covered by this volume.

The tripartite arrangement with Spain, which had been under discussion throughout the winter, was completed in June 1941. The Spaniards wanted £1½ millions worth of Portuguese colonial goods, but had no means of paying; Portugal promised a credit of £500,000, if Great Britain would help with the balance, and there were great hopes for a time that the United States would give substantial help. An American offer to do so was, however, suspended because of Señor Suñer's success in thoroughly antagonizing the American ambassador in Madrid. On Britain's suggestion, Spain prepared a list of first preferences, but this too the Americans refused to share. The list comprised:

	<i>Tons</i>	<i>£</i>
Copra . . .	20,000	360,000
Castor seed . . .	2,500	75,000
Sisal . . .	3,500	108,500
Palm oil . . .	300	9,000
Aluminium . . .	4,000	100,000
Palm kernels . . .	3,000	60,000
Hides . . .	1,000	133,000
Maize . . .	30,000	150,000

The sisal quota was full, however, and the hides were doubtful. The colonies had sugar, coffee, and more maize to sell. In the end the new agreement was signed as a result of conversations pursued between 11th June and 26th June 1941. The Ministry's comment was, 'the agreement is a puny thing compared with what we had hoped to achieve with the Americans in it as well'.

(iii)

Portugal: The Beginnings of Pre-emption

This second phase of the war saw the beginnings of the long, exasperating struggle to reduce supplies of tin, wolfram, and other indigenous Portuguese products to the enemy. There had been hopes at first that the Ministry could use the rationing of Portuguese imports as a bargaining weapon for this purpose, but Portuguese success in resisting precise commitments on quotas, together with Dr. Salazar's dignified appeals for British trust in his friendship, made it difficult to apply pressure effectively and at the right moment.

The failure to use rationing in this way is best illustrated in the case of tinplate. Sardine-fishing and sardine-packing ranked, with cork production, next in importance to the port industry, and tinplate for canning had usually come from Britain or the United States before

the war, although Germany had been taking the place of France as the principal customer, and had begun to supply increasing quantities of tinsplate. Pre-war Portuguese imports of tinsplate had been about 21,000 tons, and on this the British ration was based; but quarterly rationing was difficult to apply as the demand was seasonal and the catch unpredictable. The British Ministry of Food had large stocks, and a proposal to buy the whole sardine catch was dropped. Germany was thought to be more interested in the tin of the tinsplate (not more than $1\frac{1}{2}$ per cent.) and the olive oil than in the fish themselves, and the packing of one sardine per container of oil by Norwegian firms in the 1914-18 war was recalled. In July 1940 Portugal had already received three-quarters of her normal supply of tinsplate and the Ministry decided, pending discussion of the whole position, not to allow her to draw any advance on whatever ration might be agreed for the rest of the year. Unfortunately the large stocks were not easily available to individual packers, as Juan March ('Spain's monopoly king') had cornered the market.

For some months the Ministry continued to play with the hope that its control of tinsplate could be used to prevent the export of tin metal and wolfram to the enemy, and at the beginning of December 1940 the Permits Committee granted permits for 2,500 tons of tinsplate beyond the annual ration, to be issued to firms willing to place their export trade under British control. Unfortunately the need for tinsplate, owing to the excellent 1940 catch, was exceptionally heavy, and the Germans were by now offering to supply Portugal with her full requirements of tinsplate for two years in exchange for $2\frac{1}{2}$ million cases of sardines, and it became only too obvious that if it was not to lose the market to the Germans, the Ministry must see that Portugal got her tinsplate supplies abundantly and quickly from non-enemy sources. Following pressure from the embassy, the quota for January-March 1941 was increased to 10,000 tons; but by April many factories were closed, and the position was described by the embassy as a 'nightmare'. A German purchasing commission was making exciting offers. The real difficulty was that Britain could not deliver the goods; and the United States was refusing export licences. By April only 2,200 tons of tinsplate had arrived from England, and when a further English allocation of 4,000 tons arrived it was found to be of 'the wrong size, poor quality, and largely unsuitable for fish packing', while the Germans had already delivered 12,000 boxes of the right size and good quality. However, protracted negotiations had been on foot for the purchase of the sardines themselves, and Britain finally secured a contract for 150 million tins ($1\frac{1}{2}$ million cases)—the largest ever secured by the Portuguese canning industry. The bargain was, financially, an extremely bad one; by a 'piece of ringcraft' the British negotiators were thoroughly deceived by certain Portuguese firms.

The sardine purchase had not been primarily pre-emptive; the fish was bought by the U.K.C.C. for the Ministry of Food. It did, however, divert a useful foodstuff from German Europe. There were certain other purchases of comparatively minor importance. Various fish oils (2,587 tons by the end of 1940) were bought at a moderately heavy loss in face of direct German competition. The purchases were necessary to absorb dangerous stocks; but it was hoped that Britain's rationing policy for Portugal would in due course reduce the necessity for such purchases. Similar purchases included olive oil and oil-cake.

The Ministry also bought a parcel of 88 tons of lubricating oil which had been offloaded in Portugal, a cargo of 1,400 tons of quebracho from one refugee French ship and a cargo of copper from another, the latter because the stocks of copper in the peninsula were dangerously high, and the former because this important tanning material was at the time a serious enemy deficiency. Britain did not at this time pre-empt hides and skins, for the slaughter of herds in occupied countries had given the Axis a good supply, but it was considered worth while to get hold of the tanning materials.

Tin also caused some excitement and dark intrigue; British purchases were purely pre-emptive, and, although comparatively small, they caused a substantial upward movement of prices on the tin market. A rough estimate in June 1940 put production at some 2,000 tons a year; most of the concentrates had come to Britain before the war, and as she had received only 340 tons in the first half of 1940, the Ministry wanted to know what was happening to the balance. Between July and September 1940 the Ministry had hoped to secure a total prohibition of Portuguese tin exports to the enemy in return for a British undertaking to supply, or allow through the controls, 2,500 tons of tinsplate a quarter. This delayed the decision to buy tin and tin concentrates pre-emptively, and by September 1940 the Germans and Italians were already securing the bulk of the Portuguese surplus. The Germans were bidding £320 a ton by early September. Prices in October reached £380, as compared with £265 in London. The British purchasing agent was instructed to buy and store up to 50 tons in Portugal, and within a month he had nearly this figure in hand. But by now it seemed only too probable that Germany was obtaining all the tin she needed through Japan, and from January 1941 the Ministry's plan was to *appear* to be buying in order to raise prices. These touched £900 a ton early in March 1941; the principal sufferers were probably the Spanish and Swiss, for Germany still had good stocks. A Portuguese Government ban in April on exports of tin therefore suited British policy, and also brought a fall in price.

But the main British pre-emptive effort was over wolfram, and although the great wolfram battles came only after June 1941, when the closing of the Trans-Siberian route cut off Germany's Asiatic

sources of supply, there was already some fierce skirmishing in the winter of 1940-41. For Portugal was the most important producer in Europe; she contributed only about 3,000 tons out of an estimated annual world production of some 37,000 tons, but the only other European source of any size was Sweden with 300 tons.

The Portuguese deposits lie north of the Tagus. Britain had, as with wine production, the major foreign interest; she owned the largest mine, 'Beralt', and controlled its entire output. The next most important mine, 'Borralha', was French owned. There were two smaller French companies. The chief German-controlled mine was 'Silvicola'. Apart from the mines which were tied in this way to various foreign concessionaires, there were a number of small independent mines whose production might be competed for by both sides; they generally had fairly well-marked leanings, but were not tied in their allegiance. And in addition to these legally-established companies there was a good deal of individual, and often illicit, production, much of it on a 'tribute' basis. An individual peasant-miner would take a section, work it on his own, and sell to a company such rough concentrates as he was able to produce. The company would buy at something lower than the market rate, usually for cash. Though the mineral in theory belonged to the company, the miner would often endeavour to sell it elsewhere for a better price. There were, again, others with no rights at all, who scratched the soil for a few handfuls. The widespread distribution of the mineral, often in pockets or veins scattered over very rugged country, provided favourable conditions for this 'fossicking' or 'scraping', as it was variously described. Thus a good deal of 'illicit' wolfram was produced, difficult to estimate or trace. By Portuguese law all consignments of wolfram had to be covered by *guias*—a kind of official passport, necessary if the wolfram were moved outside the area of the mine or concession. But there were ample opportunities for the peasant-miner either to get his illicit wolfram covered by the *guias* of an unscrupulous dealer, or to run the risks involved in selling without one, since the high prices paid would cover possible fines.

The problem, then, was to keep the output of the smaller producer out of German hands. Early in 1940 the Anglo-French Executive Committee for Economic Warfare decided that it should be left to France to deal with these. After an unsatisfactory attempt through a Portuguese buyer, it was decided to form a separate French organization; then came the armistice, and it was proposed that the British should acquire control of the newly-formed French company. It was also proposed that Britain should finance a lease of the Borralha mine to Beralt, partly because of the dangerous possibility of German control, partly because the French management was considered to be incompetent. Treasury sanction was secured on 18th July

authority often arrived too late to catch the market, and for a time it was allowed to operate without approval until a halt was called in February 1941. At this point the price per unit had reached 220s. It was then decided to limit pre-emptive purchases of 'independent' wolfram to 50 tons a month for an experimental two-months test period, but this was soon found to have had no appreciable effect on the price. The position in April 1941 was that the British were securing the whole Beralt output; at least the bulk of the Borralha output; and 50 tons of independent wolfram. By this stage, however, it was estimated that at least 150 tons of 'independent' wolfram were being produced a month. For a few weeks, in October 1940, it had appeared from intercepted messages that the Germans were in serious difficulties. But later figures showed that German purchases steadily increased; they reached 330 tons in March 1941; 255 tons in April (when buying was suspended for a time), and then 330 tons in the first half of May only. The price was 400s. in mid-April. A new German company was formed. The Treasury authorized the continuation of British purchases of 50 tons a month pending a decision as to whether to embark on all-out purchasing. It was also known in April that the Vichy Government intended to bring Borralha under control. By 10th June the price had reached £1,250 a ton.

So by the summer of 1941 the Portuguese wolfram problem was causing the Ministry great concern. The German efforts had been decidedly successful, their purpose puzzling. There seemed, too, a real danger that the Portuguese Government, alarmed by the quest of the peasants for quick gains to the detriment of their normal agricultural work and the consequent disorderly conduct in the wolfram areas, might intervene to control exports, and might very well divide the market between the rival competitors. This would not have suited the British at all, for they controlled the greater part of the output. But no such intervention took place, and the period closed with the new German wolfram offensive well launched, and likely to be intensified with the closing of the Trans-Siberian route.

(iv)

Spain: The Policy of Controlled Assistance

In Portugal the blockade issues never lost the character of a game of poker between hard-faced friends; in Spain the Ministry could never forget that play might be but the pretext for, or the postponement of, an open quarrel. This difference in political circumstance greatly complicated the economic issues; in particular it helped to conceal (even more in Washington than in London) the fact that

throughout the war it was easier to enforce the blockade on the confessed non-belligerent Spain than on the ally Portugal.

All in all, whether we consider the political or the economic aspect, we can say that Spain was, on balance, a success for British diplomacy. But the difficulties, even in the interdepartmental sphere, were very great, and throughout the war political considerations forced the Ministry into decisions on other than economic grounds.

These political considerations were in the last resort a matter for the Foreign Office and are too complex for adequate treatment here, but it would not perhaps be misleading to summarize the situation as it appeared to the Ministry in the following terms. The Spanish Government's temptation to cash in on the German victories, to take Gibraltar and parts of the French North African Empire, and to surrender to the Falange expansionists, was restrained by three factors. The first was the desperate internal situation, and the powerful weapon which the Allies possessed in their control of Spanish imports. It was true that this weapon had to be used with circumspection; the blockade, if injudiciously applied, might defeat its own end. The new British ambassador, Sir Samuel Hoare (now Lord Templewood) wrote on 11th July 1940 that Spain had suffered so much, particularly in recent years, that starvation would add only another to her tribulations; but while she might bear it, she would give a ready ear to the German insinuation that it was due to the blockade. He thought, indeed, that the desire of Franco and the majority of the Spanish people for peace was so great that they might even be led for that reason to turn against the one country, namely Britain, which was determined to continue the war. Secondly, although the Germans had gained a remarkable degree of control in Spain, and had created through the Condor Legion an instrument which led the Spanish Army to worship German invincibility, they were anything but popular; they were feared, particularly after German armies reached the Pyrenees, and while it seemed unlikely that the country would resist German aggression, it also seemed certain that the Spaniards would deeply resent any attack upon their sovereignty. In the third place, it was not quite certain that Spain was as yet sufficiently important in Hitler's scheme of things for him to be willing to occupy Spain without the co-operation of General Franco.

So for the next twelve months the chief problem of economic policy seemed to be the adjustment of the rationing schedules to satisfy Allied economic-warfare requirements—Spain must clearly not be allowed to stock up as Italy was believed to have done—while at the same time relieving Spanish shortages. The starting-point was the programme of purchases which Spain had put forward in June. General Franco had indicated, by the end of July, his intention to remain at peace, and there were furious attempts by German propa-

ganda to secure the disruption of the Anglo-Spanish economic discussions. A notorious article in the *Arriba* of 13th August, in which every kind of abuse was hurled at Britain, was merely the most conspicuous example. Colonel Beigbeder, the Foreign Minister, was 'almost passionately' determined to keep Spain out of war, and he fully, and, indeed, almost ostentatiously, accepted the implications of British economic aid. A little later, too, the policy found an unexpected ally in Señor Dimitrio Carceller, who became Minister of Commerce and Industry in September 1940, and although a Falangist colleague of Serrano Suñer soon showed himself to be a keen, although hard-headed and unconventional, exploiter of help from the Anglo-Saxon world. On the other hand, Suñer was apparently determined to frustrate this policy, and General Franco showed a remarkable capacity for neither helping nor abandoning his Axis friends, and was, indeed, to remain throughout the war, in the British ambassador's ingenious phrase, 'the Brer Rabbit of Dictators'.¹ The problem of the blockade was clearly stated by Sir Samuel Hoare in a despatch of 15th August:

How can we use the great instrument of the blockade with effect, if we allow Spain to have goods that may pass into Germany and Italy? How can we prevent a Spanish landslide into chaos or German domination if we do not allow the country the necessities of life? . . . There is a dictatorship that does not dictate and a supposed government of action that does not act. . . . Granted that the Spanish Government will honestly try to carry out any economic agreement that we make with them, is it possible to avoid an economic situation arising that will inevitably drive Spain into the war against us?

He concluded that a 'chapter of pinpricks' should be avoided, but that the blockade should be made to depend constantly upon the Spanish attitude to the war, and 'I would apply it over comparatively short periods of time so that any Spanish lapses can meet with their just retribution'.²

The first rationing period was from 1st August to 31st October, 1940. Owing to the lack of more recent statistics, quotas for the main Spanish imports were of necessity more or less arbitrarily based on the 1933-1935 import figures. Some, indeed, were fixed provisionally in the absence of any real knowledge of Spanish requirements, but M.E.W. was prepared to adjust these in the light of further informa-

¹ The political and personal issues are vividly described in Sir Samuel Hoare's memoir, *Ambassador on Special Mission* (1946).

² This was M.E.W.'s policy, but it was determined to avoid any undue leniency. Mr. Dalton commented on this despatch (23rd August): 'We cannot allow ourselves to be blackmailed by Sir Samuel Hoare's fears or by Spanish negligence in applying for navicerts. On the other hand, we must let Spain have reasonable supplies, and promptly. Root out needless delays everywhere'.

tion. The ambassador and his advisers, convinced of the serious extent of Spain's food shortages, asked for generous quotas and were convinced that there would be little re-exportation to Germany. They believed that, though possibly muddle-headed and inefficient, the Spaniard would endeavour to abide by any agreement which he might make. It seemed, moreover, highly probable that reports about trading between Germany and Spain had been deliberately spread by German agents in their attempts to break up the Anglo-Spanish economic discussions.

The Ministry's policy, nevertheless, gave rise to a good deal of friction, partly because of Spanish inefficiency, and partly because of inadequate information as to Spain's real requirements. The lack of shipping and of foreign exchange resulted in a number of shortages for which the blockade was unjustly blamed. These difficulties were due to misunderstandings which could be, and to a large extent were, eliminated as time went on and each side had the opportunity of putting its views to the other. Discussions over petroleum supplies in August and September 1940 were largely of this character. Discussions over wheat and vegetable oils, however, introduced more fundamental difficulties. The replacement of Colonel Beigbeder by Señor Suñer, on 17th October 1940, was an apparent success for the war party: Suñer's visit to Berchtesgaden in November, and the subsequent Spanish action in Tangier, kept alive for many months the belief that Spain might enter the war. (After occupying Tangier on 14th June, the Spanish took over the administration on 3rd November.) Suñer himself insisted that Spain would not do so unless the Allies tried to starve her, and one possible explanation of the Tangier incident was that he was trying to score a cheap success in foreign policy which would take attention off the strained internal situation without plunging the country into war on the Axis side. The economic discussions were held up by long delays which were attributed to his dislike, on 'ideological' grounds, of openly coming to terms with the democracies, and the British and United States Governments were compelled to delay agreement on wheat supplies until Spanish policy became clearer. The negotiations over certain other products suggested that the Spaniards were influenced as much by fear of offending the Axis powers as by the desire for gain.

Special problems were raised by the discussions on supplies of petroleum, wheat, and vegetable oils, and it will be convenient to discuss these separately. In general it can be said that the major difficulties over the running-in of the rationing machinery appeared to have been overcome by the end of 1940, although wearisome argument continued over details of practical application. The main quotas had been agreed: petroleum stocks were to be maintained at the equivalent of 2½ months' consumption; a quota of 100,000 tons of

wheat a month had been conceded; generous quotas had been allowed for vegetable oil and oilseeds (on conditions), and for sugar; the quota had been raised for hemp, and maintained at its existing figure for iron and steel; agreement had been reached on quotas for cotton and rubber. When the first rationing period ended on 31st October, it was found that only some dozen rations out of fifty had been exceeded, and that twenty had an unexpended balance. This confirmed the view that shortage of supplies in Spain was due to shipping and exchange difficulties rather than to the restrictive effects of the blockade.

Various answers were found to Spanish complaints. The closing of quotas as soon as the export licences and navicert applications for the quarter had reached the prescribed total caused trouble at first, particularly over such goods as tin and rubber, which had to be fetched from the other side of the world. The Ministry did its best to arrange quotas as early as possible, and it encouraged the Spanish to work out their shipping programmes six months ahead. It pointed out, however, that the difficulties were largely due to the earlier failure of the Spanish to seek navicerts. Another cause of friction was the Ministry's demand for individual guarantees from Spanish importers; the parastatal organizations known as *Ramas*, which controlled the major raw materials in Spain, objected to this demand, but apparently because of a belief that their word was not being trusted, and not through any intention to deceive. The Ministry decided on 3rd October that in the case of rationed commodities a guarantee from the *Rama* concerned would normally be sufficient. The Ministry also proposed as early as October 1940 that arrangement should be perfected whereby the *Rama* or some other body, and not the overseas consignor, would take the initiative in arranging for the granting of navicerts; this would prevent speculation in navicerts, and probably save time. This 'inverted navicert' system continued under discussion, but was not finally introduced until March 1942.

Spanish grumbling about the working of the quota system continued, and at last, in February 1941, the embassy invited the Ministry of Industry and Commerce to a series of formal meetings to be held every day until (1) the British attitude had been fully explained and reasons given for the existing quota stipulations on all controversial commodities, and (2) the Spaniards in return had given complete statements of the facts on which they were basing their requirements and answered the British request for a limitation of the export of certain commodities. These meetings proved a great success and did much to overcome difficulties on both sides. At the first meeting, in the discussions on the iron and steel industry with regard to which there had already been considerable difficulty, the Spanish accepted as conditions upon which all discussions of quantities should depend:

1. the rectification of the wording of the original undertaking regarding exports of iron and steel to Italy;
2. an undertaking that no steel would be exported in 1941 after the termination of the existing Italian agreement;
3. an undertaking to consult the Ministry before entering into new commitments for pig-iron and also for steel if condition (2) were not entirely acceptable.

This meant that the Ministry of Industry and Commerce would represent the British viewpoint to the Ministry of Foreign Affairs, and also, most probably, that if the metallurgical industry were allowed reasonable and assured quantities of the materials needed, the metals *Rama* and the industry itself would assist the Allies to obtain guarantees in the teeth of Axis pressure. This pressure was a reality. It affected the whole question of exports to Italy by making the Spaniards seek to maintain a certain *total volume* of exports. If they agreed to restrict exports of steel and pig iron they considered that they should not be pressed too hard over such goods as canned fish; okume wood and cocoa had already been removed from their lists of possible exports and the total could not be allowed to fall below a certain point. This in turn affected the tinsplate quota which had previously been dealt with entirely separately from the iron and steel quota. In April 1941 the requirements of the Spanish iron and steel industry were discussed in London with a Spanish expert, and letters setting out the terms of an agreement were then exchanged.

By the end of June 1941 nearly all the quotas had been agreed. Commodities dealt with included manganese, ferro-manganese, coal, scrap iron, nickel, ferro-alloys, tinsplate, copper, phosphates, hemp, sisal, linseed, castor oil, tallow, palm oil, carbon black, rubber, latex, and hides. Quota troubles had therefore largely disappeared by the summer of 1941, and both sides were able to concentrate on the supply and shipping problems which constituted one of the two major issues of blockade policy. Pre-emption was the other; but it did not become important in the Spanish story until the latter part of 1941.

(v)

Spain: Petroleum

The principle of controlled economic assistance produced its first serious crisis in discussions over oil imports, and the agreement on the question in September 1940 was to prove an important factor in Anglo-Spanish relations for the rest of the war.

In the early summer of 1940 the Ministry found that Spanish stocks were being rapidly increased; they were reported to have reached

nearly 400,000 tons, and the first move was to check this growth by limiting the number of neutral tankers available to Spain. Metropolitan Spain, with no oil production of its own and little if any refining capacity, imported petroleum products rather than crude oil, and the Government monopoly for the importation and marketing of these products was administered by the Spanish company 'CAMPSA'. To this was affiliated the 'CEPSA' refinery at Teneriffe, a private company which imported crude oils and supplied part of the requirements of CAMPSA, as well as bunkering ships at Teneriffe with fuel and diesel oils. Most of the neutral tankers carrying oil to Spain were American owned, chartered through the Texas Company, which also owned and chartered Norwegian tankers. In June 1940 the Norwegian Shipping Mission agreed to requisition all these Norwegian tankers, and the United States Maritime Commission undertook to prevent all American-owned tankers from sailing to Spain, and also to support the British in their attempts to dissuade United States oil companies from allowing foreign tankers under their control to be used for this purpose (see p. 475). Moreover, no navicert applications for oil were granted during July.

The Spanish Ministry of Foreign Affairs soon began to show alarm at the position, and asked for an import quota on 16th July. It estimated the normal Spanish rate of consumption for all oil products at about 1,020,000 tons a year. A reduction of about 10,000 tons a month had recently been effected by the raising of the price to private consumers, but the capacity of seaworthy tankers under Spanish control was only 35,000 tons a month, less than half the normal rate of consumption. The Ministry questioned the accuracy of the Spanish figures, but agreed on 27th July to the maintenance of stocks equivalent to two months' consumption, and sent out a representative, Mr. Turner, who arrived on 6th August. He was at once able to reassure the Spanish officials somewhat; he found that they were taking the desperate view that through the cutting off of navicerts and American connivance they were to receive no oil at all, even in Spanish tankers. But he said that while the British Government was quite willing to facilitate reasonable imports, it could not agree to a rate of 80,000 tons a month—CAMPSA's figure for consumption prior to the recent restrictions—without the price being lowered and the restrictions relaxed.

He came to the conclusion, after an exhaustive study of CAMPSA's figures, that the company had not been trying in any way to conceal stocks, but was merely hopelessly inefficient. He was satisfied that stocks on 1st August 1940 were 217,000 tons, and if Spain imported only what she could carry in her own tankers this would be reduced to 146,000 tons by 1st October. The monthly rate of consumption with the restrictions in force he agreed to be about 62,000 tons. Mean-

while CAMPSA was pressing to be allowed to maintain stocks at the equivalent of three months' consumption instead of the two months' suggested by the Ministry, and in return offered to persuade the Spanish Government to remove the restrictions. A compromise of 187,000 tons, or three months' consumption at the restricted rate, to be built up gradually from the October level, was suggested by Mr. Turner, who considered that an agreement on these lines might have the desirable effect of removing existing restrictions on consumption, for which the British blockade was being unjustly blamed. The Ministry accepted these figures on 19th August and it was decided that the CEPSA refinery at Teneriffe should be allowed to run to full capacity, since CAMPSA could absorb most of the production. This would also make it possible for Spain to import sufficient quantities without sending non-Spanish tankers to United States ports, which would be most undesirable in view of the new restrictions on United States tankers. The terms proposed by Mr. Turner on 16th August included the following points:

1. Restrictions on consumption of gas and fuel oil to be removed immediately.
2. Stocks to be fixed at 187,000 tons, representing three months' overall consumption.
3. Britain to grant navicerts for 10,000 tons of gas oil and 10,000 tons of fuel oil. Including these two cargoes, stocks at 1st October would then be approximately 165,000 tons.
4. Navicerts to be granted during the quarter 1st October–31st December for 187,500 tons (equal to three months' consumption), together with a further 22,000 tons (to bring stocks up to three months' requirements), i.e. a total of 209,500 tons, of which:
 - 106,000 from Teneriffe in Spanish tankers;
 - 42,000 from United States in Spanish tankers;
 - 61,500 from United States in non-Spanish tankers.
5. The British to grant navicerts to CEPSA to bring during the same quarter up to 150,000 tons of crude from South America in non-Spanish tankers.
6. CAMPSA to supply to the British embassy, Madrid, monthly figures of all sales and stocks.
7. Extra imports to be allowed if the removal of restrictions results in an increase in consumption; if restrictions not removed, His Majesty's Government to control issue of navicerts in such a way that total stocks are reduced to 150,000 tons.
8. CAMPSA to undertake to continue its efforts to purchase 21,000 tons of gas oil and 7,500 tons of fuel oil *ex* German and Italian tankers sheltering in Spanish ports.

9. CAMPSA to give guarantees against: (a) re-export; (b) re-fuelling belligerent ships; (c) providing petrol for belligerent-controlled transport companies in amounts in excess of those necessary to take them to the frontier.
10. Lubricating oil stocks to be reduced to 12,500 tons; aviation spirit stocks to be reduced to 5,000 tons.

The Ministry agreed, on 24th August, subject to United States concurrence, to the removal of the restrictions, the limitation of stocks to 187,000 tons, and an absolute guarantee against the direct or indirect supply of enemy ships and aircraft. The State Department made no objections, but the Spanish authorities would not agree to these conditions; in the meantime, the Germans in Spain were making desperate efforts to prevent the signing of the agreement. On 31st August, Señor Larraz, the Finance Minister, after explaining that he could not appear to give way to British dictation, asked that the Spanish should be allowed to make their own proposals—this would enable him to say that England had agreed to a shipping programme submitted by the Spanish Government. The ambassador agreed; unfortunately the scheme proved to be quite unacceptable. It provided for an import programme for the months of September, October, and November 1940 of 220,550 tons, including 9,000 tons of aviation spirit and 6,000 tons of lubricating oil. It further provided that any imports from CEPSA during that period would be in addition to the 220,550 tons, but would be deducted from the next quarter's programme. These proposals meant that, even if this last clause were ignored, stocks by 30th November would amount to 208,000 tons. Mr. Turner cancelled his next meeting with CAMPSA and informed the secretary that the position was hopeless and that he was leaving for Lisbon. This, and an intervention by Sir Samuel Hoare, had the desired effect and discussions continued in a more friendly atmosphere.

Agreement was finally reached during the first week of September, as a result of which stocks were fixed at 160,000 tons, equivalent to about two and a half months' consumption. Imports were to be regulated so that this figure of 160,000 tons would be arrived at by the end of December 1940. This figure included 4,000 tons of lubricating oil, and a further 4,000 tons might be imported if the Spanish could make out a good enough case. The British proposed that the figures for the agreement should stand only if the restrictions on consumption were not subsequently increased; this seemed reasonable enough, but was exaggerated, probably as a result of German intrigue, into an attempt to meddle in the internal affairs of Spain. Eventually the British representatives decided to drop the point, as there were very effective means of retaliation if it proved that the Spanish authorities were not acting in good faith. When this was made known, Colonel Beigbeder told the British military attaché that he and his friends had been

saved from impending disaster, and he later told the ambassador that he believed the agreement to be the turning point in Anglo-Spanish relations. The Foreign Minister agreed to make a press announcement and the British decided not to make 'an already difficult agreement even more difficult by raising again the question of refuelling enemy aircraft'. But CAMPSA was induced to declare that all imports would be consumed in Spanish territory and that neither these nor any part of the stocks in Spain would be exported directly or indirectly outside Spanish territory; this was considered to be sufficient safeguard. The final letters included all the safeguarding clauses desired by M.E.W. except the non-fuelling of enemy ships, which was covered by the war-trade agreement, and the supplying of enemy controlled transport companies with more petrol than was necessary to take them to the frontier. There was no real evidence that this was happening and no effective means of checking it if it were.

The letters were finally signed on 7th September 1940 and formed, apart from certain details, a satisfactory enough arrangement. Over a period of five months stocks would be reduced from 224,000 tons to 160,000 tons. At this figure it seemed most unlikely that any but the most insignificant quantities could be exported to Germany. No imports of aviation spirit were allowed as stocks were already high, but CAMPSA was allowed to import 4,000 tons of lubricating oil, equal to about one month's supply, during the rest of the year. The most disappointing feature of the agreement was the failure to secure guarantees against the refuelling of enemy aircraft. The agreement was renewed for each quarter of 1941 with the necessary adjustments but without any major alteration.

(vi)

Spain: Wheat

But the most serious problem facing the Spanish Government was the food shortage. The harvest was a bad one, for several reasons—the weather, the reluctance of farmers to grow wheat under the new system of control, shortage of labour, lack of fertilizers, and the fact that much of the land had gone out of cultivation during the civil war. Less than thirty-three per cent. of the normal amount could be moved from the provinces owing to lack of transport. Bread was almost unobtainable in many districts. There were deaths from starvation, and perhaps it was only the general exhaustion after the war that prevented dangerous unrest. Further privation during the

winter might very well touch off a revolt, and the Germans might seize the opportunity to occupy the country.

It was, therefore, British policy to attract Spain into the Allied sphere of influence by enabling her to import, within reasonable limits, all the wheat she needed. Following the loan agreement of March 1940 the British Government had, as we have seen, undertaken in May to assist her to obtain 100,000 tons of wheat from sources under British control, but by August only about 15,000 tons had been shipped, owing mainly to the fact that the Spanish Government had been extremely dilatory over the financial arrangements. None of the three cargoes diverted to Spain had been paid for by 16th August. Spain was also to receive Newfoundland codfish and rice from sterling sources, and other foodstuffs from the Portuguese colonial empire, as we have already noted in the first two sections of this chapter.

The original purpose of the British wheat offer of 100,000 tons was to tide the Spaniards over the period before their next harvest. But in the meantime they had bought freely from other sources (often without bothering to secure navicerts), and by mid-August the quota of 95,000 tons fixed by the Ministry for the quarter beginning 1st August, was already nearly full. There seemed, therefore, good reason to hold over the balance of the 100,000 tons until 1941, when the Spanish harvest would have been used up. But after the signature of the Anglo-Portuguese-Spanish agreement on 24th July 1940 it was felt in London that it would be difficult to refuse to allow Spain to import the 85,000 tons balance, in which case she would be able to obtain something like 100,000 tons over the ration. The Ministry agreed, therefore, on 30th August, that the British offer to provide financial facilities for the balance would remain open, although no navicerts would be granted for further shipments outside the ration except within the framework of that offer. Spanish imports under the ration, together with the harvest and the balance of the British offer, should then prove sufficient to last until the end of February 1941. The Ministry was also prepared to ask the Australian Government to reserve up to 200,000 tons of wheat for Spain, to be shipped in Spanish ships so as to arrive not earlier than the end of February 1941. This offer the Spanish gratefully accepted, although it was difficult to see how the necessary shipping could be made available. They then asked to be allowed to transfer the unexpended part of the financial facilities for wheat to an additional purchase of groundnuts from the Portuguese colonies, and since this would absolve the Ministry from the obligation to facilitate imports of wheat in the near future, and since there was still room in the quota for groundnuts, there was much to be said in favour of this proposal. It would also make it possible for the cargoes already loaded in South America to

be navicerted. These were in excess of the quota, but would not exceed the 85,000 tons which the Ministry had been prepared to allow in excess of the quota.

On 3rd September, however, Sir Samuel Hoare reported that the situation in Spain was even worse than he had previously thought; the shortfall was now estimated at one million tons. Officials considered that there could be no possible fear that a single grain of imported wheat would be exported. 'Such an action would mean a revolution.' He accordingly urged that Spain should be allowed to import wheat evenly throughout the year to the extent of the estimated annual shortage, and in view of the political considerations involved the Ministry agreed somewhat reluctantly on 17th September to accept provisionally the Spanish Government's estimate of the annual deficiency of wheat and to allow imports for the next few months up to a maximum of 100,000 tons a month of cereals of all kinds except rice.

The next problem was to find, finance, and ship the necessary supplies, for it was becoming clearer and clearer that if Spain was to be kept out of the war it was necessary not merely to fix quotas, but to guarantee the supplies under the quotas. The most urgent of the immediate problems was undoubtedly shipping.

Early in September the Spanish Government suggested to Washington plans whereby olive oil might be bartered for wheat from the United States, and a loan of about \$20 millions should be granted to enable Spain to buy cotton and foodstuffs in the United States. At first the State Department was sympathetic, and the British embassy went to great trouble to put the proposals into an acceptable form. Señor Carceller, the Minister of Commerce, presented his plans in a decidedly unsatisfactory form to Mr. Eccles at a meeting with Spanish officials on 19th September; when Mr. Eccles said 'how splendid it was, they were happy, and delighted to remake it on sounder lines'. The plan contained at least one huge error—the Spaniards proposed to export 142,000 tons of olive oil, more than the world's average imports, all to America, and forgot that if all dollar proceeds were earmarked for wheat purchases from the United States there would be nothing left to pay for cotton, oil, and other essential requirements. The British representatives in Madrid continued, however, to encourage the scheme.

The question of a loan continued under discussion during October without any real progress in Washington. President Roosevelt told General Franco that the American Red Cross was prepared to send one United States shipload of wheat to Spain on condition that none of it was exported, that it was delivered to civilians through the American and Spanish Red Cross only, and that the Spanish press published all the facts; other ships would probably be sent in the

future as long as Spain stayed out of the war. On 8th October General Franco accepted this offer and the attached conditions. But after the Hitler-Franco conversations at Hendaye on 23rd October, the American Red Cross postponed its proposed shipment, and after the Spanish action in Tangier, and Suñer's speech early in November proclaiming that the interests of Spain were solidly with the Axis, the United States Government made it clear that 'those who play with Herr Hitler must expect no assistance whatever from the United States'. No further offers of economic assistance would be made until General Franco had agreed to make a public declaration of his policy and give a definite assurance that Spain would not enter the war on the side of the Axis.

Sir Samuel Hoare, however, took the opposite view. He certainly found Spanish conduct exasperating enough, but he was convinced that with the Germans on the Pyrenees it was impossible for Franco to make declarations of this sort; Spain must have food, and the Germans were offering wheat. Unless help were sent quickly he believed that she would be forced to enter the Continental bloc and probably the war, and on 16th November he asked whether it would not be possible to divert one or two grain ships to Spain in the immediate future. He continued, in spite of much provocation in Madrid, to maintain that a change of policy at this stage would be disastrous. At the time of the Hendaye meeting the Spaniards were running out of sterling very rapidly, and the embassy presented them with estimates of their requirements until 31st March 1941, which emphasized their dependence on British help. The result was an urgent request on 13th November for further British credits of at least £2½ millions. The Spanish were in desperate need of many imports besides wheat, such as cotton (for the large Catalan industry), rubber, coal, and sisal. The embassy asked that the request should be in writing; this was readily agreed.¹

The negotiations for an American loan continued to be held up, but on 1st December Sir Samuel Hoare was informed that the British Government had decided to go ahead with the £2½ million loan; furthermore, the Ministry was prepared to grant navicerts for wheat imports up to a figure of one million tons for the next twelve months. A condition was that this offer should be given full publicity in the Spanish press and broadcasts. The State Department raised no objection to the British proposals, but had still not decided to assist. The need for wheat was so urgent that the Canadian Government was invited to help in supplying wheat and agreed to do so on 5th December. The Canadian supplies were important because of the shipping problem; they could be fetched in half the time that would be

¹ This was significant in view of Suñer's later reluctance to sign the loan agreement; it marked the beginning of a departmental revolt against him.

needed to bring wheat from the River Plate. In addition, a financial agreement was signed on 2nd December 1940, the effect of which was to extend the control already imposed by the Clearing Agreement of 18th March 1940. The Spanish agreed to surrender what remained of their free sterling.

The British offer of further economic aid was very well received in Spain. On 5th December the Minister of Commerce made a speech to representatives of the motor industry in which he said that a fortnight earlier Spain was on the point of being driven into a military and economic alliance with Germany, but economic intervention by the British Government had saved the situation and the better relations between Spain and the United States were due to British help. Sir Samuel Hoare believed that for the first time there was 'a real chance of starting a new chapter with Spain'. It must be remembered, however, that all this time the Spanish Government's action in the international zone of Tangier was making negotiation on economic matters extremely difficult; an attack on British premises there and the prolonged stay of Italian submarines had roused such resentment in London that it would be very difficult to justify a policy of economic assistance to Spain unless the latter gave some definite guarantee about her future action in Tangier. Accordingly the specific British wheat proposals of 7th December were made subject to satisfactory assurances about Tangier. The British Government offered:

1. to make available from British stocks in Argentina 10,000 tons for immediate shipment and 40,000 tons for shipment after 15th December;
2. to make available for immediate shipment 25,000 tons of Canadian wheat from British stocks in North America;
3. to arrange later for Spain to purchase up to 200,000 tons in Argentina.

All these supplies would have to be purchased through the U.K.C.C.

The crisis over Tangier was not eased until the conclusion of the Tangier Agreement of 31st December 1940; difficulties over the signature of the agreement continued for some weeks, but by the middle of January 1941 it was found possible to begin shipments of wheat from Canada and Argentina. Señor Suñer had still not signed the final document regarding the rights of British subjects in Tangier. 'Most irregular and childish', said the British embassy, but it was thought better, in view of repeated assurances from all sides, not to hold up the signature of the wheat contracts and to leave the responsibility for their future success or failure with Suñer. The loan agreement remained unsigned, but the wheat contracts were signed on 17th January and by the beginning of February the provision of grain for Spain had started in earnest. The most important development in the wheat crisis was, however, the agreement of the Argentine Govern-

ment on 29th January to the sale to Spain of 400,000 tons of Argentine wheat; the British Government's only part in this was to agree that the necessary navicerts should be granted.

Stocks in Spain were by this time exceedingly low and there was no bread at all in some parts of the country. The Spanish Foreign Minister, backed by German propaganda, was still accusing Britain of starving Spain by means of the blockade. Sir Samuel Hoare therefore asked for a further reconsideration of the wheat quota, fixed at 100,000 tons a month in September 1940. The matter was discussed in the Ministry and other interested departments during the first weeks of February 1941. On 12th February instructions from Mr. Churchill, who was anxious that both Britain and the United States should take advantage of the more friendly attitude in Spain, were 'don't boggle, but feed'. M.E.W.'s attitude, supported on this occasion by the Foreign Office, was, in the words of Mr. Eden, to 'turn the tap on but *regulate* it and be ready to turn it off'. So it was agreed that navicerts for 200,000 tons a month should be granted during February and March in addition to the wheat already coming from Canada and Argentina. There was no justification for this amount on purely blockade grounds, but it was considered that Spanish shipping difficulties would in any case keep imports well below this figure.

(vii)

Spain: Vegetable Oils

Linked with the wheat problem was a similar crisis over vegetable oils, and after February 1941 this became the key to the further maze of negotiations over Spanish supplies. By the summer of 1940 Spain had become very short of all forms of vegetable oils as a result of earlier exports to Italy. The Ministry was prepared to grant a generous ration for oilseeds and vegetable oils up to the end of 1940, but on the understanding that the new olive oil crop, which would then be available, was not exported to the enemy. This warning was repeated in October. No assurance was given, and in January 1941 the Spanish Government announced that it would be obliged to fulfil certain contracts for the supply of olive oil to Germany and Italy. They were pressing for some 60,000 tons, but the Spanish Government proposed to limit the export to not more than 10,000 tons to Italy and 6,000 tons to Germany. Accordingly the Ministry imposed an embargo in January 1941 on the import into Spain of vegetable oils for edible purposes; on 23rd February this was extended to cover all forms of animal fats and vegetable oils whether for edible or industrial use. Although there was no actual evidence of exports to the

enemy, it was clear that the Spaniards intended to permit them; all reports from Madrid showed that they were 'too frightened or too obstinate' to refuse and would not be deterred even by the embargo, in spite of the disastrous effect that this would have on Spanish economy.

In the meantime the Spanish plan for obtaining wheat from the United States in exchange for olive oil continued to be held up: on the Spanish side the chief difficulty now was that Spain could not import the substitute oils necessary to compensate for the export of olive oil. By February 1941 the plan seemed to have been abandoned and the Spanish need for substitute oils was somewhat less pressing than in the autumn of 1940. By April it was clear that, from a blockade point of view, the embargo had failed to achieve its purpose—prevention of the export of olive oil to the enemy—and had become more a punitive measure than a bargaining weapon. At the same time a typhus epidemic had broken out in Spain and the Spaniards had to ask for vegetable oils for the manufacture of soap and paint. While unwilling to relax the ban completely, the Ministry felt that Germany must be given no opportunity of making propaganda capital out of the typhus situation, and offered, on 23rd April, to release 3,000 tons of tallow and 1,500 tons of palm oil for the manufacture of soap. Sir Samuel Hoare was asked to inform the Spanish Government that this was a special concession which could not be repeated, but on 26th April he replied that he was very much averse to this course as it would serve no useful purpose and would only antagonize friendly Spaniards.¹

The struggle inside the Spanish Government between those who were prepared to accept Allied economic assistance, and those who remained sensitive to Axis pressure, was now at its height. The protagonist of the former policy was Señor Carceller, who asked on 22nd February if some small relaxation in the blockade could not be made in order to enable him to bargain with the Germans rather than give them a definite refusal on every issue raised. The Ministry had to reply, on 13th March, that it could not agree to concessions of this nature, but it offered instead the hope of Anglo-American co-operation in economic assistance on a much larger scale than before. Its aim, as we have already seen (p. 524), was to persuade the Portuguese and American Governments to join with the British in offering assistance to Spain, once the loan agreement should be signed. Señor Suñer continued, however, to make excuses for not signing the agreement, in spite of the fact that it had originally been asked for by the Spanish Government, and in spite of the fact that other Spanish

¹ Mr. Churchill, who had taken charge of the Foreign Office during Mr. Eden's mission to the Near East, called the Ministry's attention to the typhus problem on 5th April 1941, and said he hoped that, without prejudice to the fuller consideration of the olive oil situation, it would be possible to permit the import of the required materials.

ministers were gravely concerned over the delay; Señor Carceller even went so far as to resign, though he withdrew his resignation later. The agreement was not, in fact, signed until 7th April, six months after negotiations had begun. This Supplementary Loan Agreement provided for the additional loan of £2½ millions, of which £350,000 had already been advanced under an Anglo-Spanish-Moroccan agreement of 29th November 1940 to facilitate the purchase by Spain of certain quantities of phosphates, manganese, and wheat from the French Zone of Morocco. This brought to a successful conclusion the bid by the Ministry of Commerce for continued trade with the sterling area against the pressure of the Axis. As a further mark of his desire to co-operate, the Minister of Commerce negotiated an agreement to supply a large quantity of mercury, against deliveries of wheat and rubber, for sterling, in spite of the fact that this transaction was strongly opposed by the Germans and the Minister of Foreign Affairs. Owing to this opposition the mercury agreement was in the end deleted from the appropriate annex of the draft loan agreement, but there was a secret gentleman's agreement that it should be carried out all the same. The long delay before the final signing of the loan agreement seems to have been due partly to this mercury question; the main cause, however, was Suñer's hostility to closer economic relations with the United Kingdom.

By this stage trade between Spain and the United States was almost completely suspended. The arrival in Washington early in April 1941 of Mr. Eccles made possible a more detailed presentation of the Spanish problem, and the British embassy in Madrid believed that the signature of the agreement would be 'a welcome and important addition to our arguments'. At first, however, discussions with the State Department served only to underline American hostility. Reflecting American opinion, the Department was inclined to regard the new Spain as more than half in the enemy camp, and therefore deserving of little help; its dislike of Nationalist Spain had been aggravated by the irritating behaviour of the Spanish Government and by the hostile attitude of the Spanish press. It was admitted, however, that the President might be willing to give some aid on strategical grounds. The British representatives continued to emphasize the importance of economic help as a means of strengthening Spanish neutrality, and, more specifically, to suggest that the United States missions in Spain and Portugal should be strengthened; that the United States export-licensing system should not be used against Spain in cases where goods came within a quota that the British Government had negotiated with the Spanish Government; and that United States trade with Spain should be developed where possible.

Reports of new trade discussions between Spain and Argentina led the State Department to grumble at the 'continued attempt by

Spanish press, etc., to divide the Argentine from the United States'; the British embassy in Madrid did not, however, think that these discussions had gone beyond casual conversations, and said that the Spanish Ministry of Commerce was still 'pathetically optimistic' about receiving United States help. The most urgent need, apart from the transport of cereals, was for 30,000 tons of sulphate of ammonia for the rice crop; Britain could not hope to give more than 10,000 tons, and a proposed arrangement for the bartering of this commodity with France against pyrites had fallen through. In Washington the trade was pressing the State Department incessantly for olive oil, but was being told that the blockade was the cause of all their troubles. The deadlock could be broken if the United States were to contract for 25,000 tons of olive oil against the delivery of an equal amount of substitute oil, and there would then be a basis for selling some food to Spain; this food could probably be offered at once and at a low price. By 23rd April it was at last known that 'the ice was thawing' in Washington; the United States Government was now prepared to issue export licences to Spain without discrimination, and this concession was to operate at once with tinsplate and a number of minor articles. This decision had been facilitated by a 'tonic talk' which the United States ambassador had had with Señor Suñer, and on 26th April a committee, appointed by Mr. Atherton, met to draw up proposals. At the end of April the United States ambassador was instructed to see General Franco and the Minister of Commerce, as well as the Foreign Minister, and to tell them that the United States Government was ready to feed Spain, and would like to begin round-table discussions at once.

The new American plan was a revival of the original idea of a barter deal of wheat for olive oil. Accordingly, on 2nd May 1941, following Sir Samuel Hoare's recommendation, the Ministry offered to allow the import of 60 tons of substitute oil for every 100 tons of olive oil supplied to the United States if the Spaniards would undertake to limit exports to Italy and Germany to the 16,000 tons originally proposed.¹ Señor Carceller gave the necessary assurance, adding that deliveries would be delayed as long as possible. The United States Government was, however, opposed to the suggested basis of 60 : 100 tons, and wished imports to be on a ton-for-ton basis. The Ministry reluctantly consented, and on 21st May the Permits Committee agreed to the lifting of the embargo, and to the import of substitute oils and fats on the basis of one ton for every ton of olive oil exported to an approved destination. The Spaniards then complained

¹ The F.O. thought this niggling. A minute on the appropriate telegram reads, 'This is typical of the nagging and niggling policy of the M.E.W., who never will make anything but a grudging concession, and who are caught in the net of statistical calculations . . .' (2nd May).

that they could afford to import only edible oils under this arrangement and must have a separate allocation for industrial oils and fats, and although the exclusion of total Spanish requirements of industrial oils and fats from the ton-for-ton basis could not be justified on purely statistical grounds, the Ministry, on 18th June, accepted Señor Carceller's assurance that all available olive oil, other than the 16,000 tons reserved for Germany and Italy, would be distributed for home consumption, and offered a ration of 12,500 tons for the next two quarters, on condition that a guarantee was received against the export of sulphur oil to the enemy.

The plans for more comprehensive American aid were, however, frustrated by the surly response of the Spanish Government. Throughout May the United States ambassador was trying, without success, to secure an interview with Franco; he was instructed to try again and received a curt answer from Suñer, saying that the interview could not be granted, and that if the ambassador had any definite message to deliver he could give it to Suñer himself. In reply to this insulting message the ambassador was instructed to send a note to Suñer saying that he had intended to invite Franco to open discussions for an increase in United States-Spanish trade, including a credit, and that the United States Government had had every intention that these negotiations should reach a rapid and successful conclusion. But since the interview with General Franco could not be arranged, these plans were cancelled. The British embassy learned, however, on 7th June that the State Department was still anxious that private traders should continue to try to develop commercial exchanges.

It seemed clear that Suñer was determined to prevent any real co-operation. Even had this difficulty been overcome, Franco's speech on 17th July, in which he attacked both Britain and the United States, would have caused further trouble. It did, in fact, provide the occasion for a complete review of British policy, and it was then decided not to make any special effort to give further assistance to Spain nor to press the Americans to give assistance on their side. Programmes already agreed would, however, not be modified, and further facilities might be offered to Spain if these would be of direct benefit to the Allied war effort.

Although this reserved attitude served the political needs of the moment, it was due mainly to changing economic conditions in Spain. Since the fall of France the British rationing system, coupled with the exhaustion of the Spanish economy and the disorganization of the Spanish administration, had effectively prevented Spain from developing into a source and channel of supplies for Germany, and had made impossible for the time being the accumulation of stocks of dangerous commodities. The British Government had been able to

encourage friendly elements in Spain by offers of economic assistance and by allowing imports, especially of foodstuffs, on a scale which was already breaking down belief in German statements that the blockade was starving Spain. But a new factor was appearing in the economic situation during the first half of 1941. With the increasing strain on foreign sources of supply and shipping British Government departments were becoming more and more interested in the resources of the Iberian Peninsula, and were anxious to purchase iron ore, pyrites, potash, mercury, and other goods for their own use. Spain was, therefore, beginning to accumulate ample resources of sterling, and, in fact, did not use more than about half of the second credit. For the remainder of the war the problem was to find enough goods to send to Spain in order to obtain the pesetas necessary for Allied purchases. As a result we can say that after the summer of 1941 the policy of controlled assistance backed by sterling credits comes to an end; henceforth, if Spain demanded goods in short supply, the British had to satisfy themselves that they were securing something of equivalent usefulness in return. This necessitated in turn some important modifications in the British machinery for preventing the flow of Spanish goods to Germany.

CHAPTER XVI

FRANCE AND FRENCH NORTH AFRICA: THE PROBLEM OF RELIEF

(i)

The Relief Agitation

ON 25th June 1940 the Cabinet authorized Mr. Dalton to apply contraband control to all parts of Continental France, and on 13th July it was further agreed that it should be applied to all ships bound for French Morocco, Algeria, and Tunis. But the differing degrees of enemy influence in these areas, and the desire of both the British and the United States Governments to keep alive and to nourish whatever faint sparks of independent political life remained in the stricken French, led to much anxious discussion between London and Washington as to the desirability of relaxations of the blockade to relieve acute distress in these areas. In other words, the British Government was now called on to examine seriously the problem of relief.

This led in the States to new forms of public criticism of the blockade, and the Ministry became increasingly preoccupied with this aspect of the relief problem after the autumn of 1940. Both the character and the limited success of these attacks can be understood only against the peculiar background of American isolationism; the parallel movements of opinion in England, for example, developed on very different lines.¹ The immediate purpose of official action in

¹ Demands and proposals for relief from British private quarters seem to have been genuinely humanitarian, and were not strong enough to influence official policy. The Ministry received a certain number of private letters which showed that opinion was evenly balanced for and against the sending of food to the blockade area. The following is an extract from a letter of 12th January 1941 from a Merseyside worker to his sister, forwarded to Mr. Bevin: 'It is terrible to think that our Government is to allow America to send foodstuffs etc. to France! Whilst these same French people in France are working for Hitler, and making munitions, to kill us with!!! . . . They deserve to starve for giving up the fight. The men say it will be a scandal to allow these ships into France, and that it would be cause enough, to revolt against it; having done their best to stick it and see this war through, they feel it hard to have their homes bombed and stand for France getting helped after Laval and several others selling us over. We had a terrible night Thursday last. Some of the papers say, 200 over . . .' (etc.). A letter from another correspondent in Birmingham (30th January), said, ' . . . Much of the bitterness of this war came from the blockade of the last war. In that case though, the enemy was the sufferer and so it was legitimate although it still remains one of their most potent weapons of propaganda. In the present case it is a question of potential friends and starvation is a terrible, a ghastly thing. I agree that the complete blockade may protect our men . . .'

the United States in the weeks following the fall of France was, as we have seen, to make the Americas invulnerable to attack rather than to help Britain to secure victory; after the battle of Oran on 3rd July had checked the more extreme trends of pessimism and defeatism and strengthened belief in the possibility of British survival, public opinion was more than ready to welcome any forms of aid to Britain which could be made without provoking direct German or Japanese retaliation. Sympathy for the Allies which could not be expressed in terms of American security still, however, received lukewarm support, and accordingly there was still much to encourage advocates of the more traditional forms of isolationism. After the President's 'dagger' speech against Italy, the anti-war group of Democratic Senators was very vocal for some weeks, and the Scripps-Howard editors and columnists gave full publicity to defeatist stories and appeasement rumours. The passage of the Hennings Ships-for-Children Bill was accompanied by a clause requiring guarantees from belligerents which deprived it of much of its practical value. In August influential isolationists launched a direct attack on British policy with a campaign for the feeding of occupied Europe.

Until the fall of France the question of the passage through the Allied controls of goods for the relief of enemy-occupied territory had arisen in this war only in the case of Poland or of refugees from Poland. Two American schemes of relief had been in operation, one organized by the American Red Cross, the other, on more ambitious lines, by the Hoover organization known as the 'Commission for Polish Relief'; as some supplies had been allowed through, there had hitherto been no public campaign in the States criticizing Allied policy. The occupation by Germany of Norway, Denmark, Holland, Belgium, and France, the difficulties encountered by the Americans in their attempts to establish adequate supervision over the distribution of relief supplies in Poland, and the increased importance, relatively and actually, of the weapon of economic warfare, all combined to persuade the British Government that it must refuse relief to occupied countries, although it was recognized that pressure might be expected from the United States, and from refugee Allied Governments.

In this connection Belgian relief in the last war, which the Americans could be counted on to cite as proof of the possibility of conducting relief schemes under neutral supervision, seemed to the Ministry to point to quite the opposite conclusion. Even as it had then functioned, the Hoover administration had had certain drawbacks from the Allied point of view; the imported supplies had generally been received by the people for whom they were intended, but, in spite of a considerable body of inspectors, it had hardly been possible to guarantee that the Germans would not requisition other supplies locally, and so benefit indirectly from the relief measures. In general, there

could be no doubt that the Hoover scheme had helped the Germans to carry a heavy burden which they would in any case have had to bear, although without American help they would not have borne it so well. Nevertheless, the Allied leaders had testified at the time that the Hoover administration was, in their opinion, worth while, and the real basis of the British Government's opposition in 1940 to a renewal of the scheme was its conviction that the safeguards which had previously existed against any excessive exploitation of the relief facilities no longer applied. The British Government was profoundly convinced that in this war the character of the German Government was less trustworthy; there seemed no means of guaranteeing that relief supplies would reach only the people for whom they were intended, or that adequate supervision, or, indeed, any supervision, would be possible. On 7th June the Foreign Office learned that the Germans had withdrawn all offers to facilitate American relief in Poland, which seemed to mean the complete breakdown of the Hoover and Red Cross schemes in that area. While leakages might have been regarded as comparatively innocuous under 1914-18 conditions, when only some six or eight million Belgians were involved, they would be anything but innocuous in the present war when far larger territories were under German control, with a population of some 120 million people. In such circumstances the relief afforded to the Germans would have been on a really impressive scale, with a corresponding strengthening of German manpower resources. The British case was, indeed, founded as much on the equation 'food equals manpower', as on the difficulties of control and supervision. In addition, the British Government had to recognize that concessions to meet any local case of apparently exceptional urgency would almost certainly be followed by demands for the extension of relief facilities to other areas.

After a great deal of interdepartmental and cabinet discussion the government's policy was stated by the Prime Minister in the House of Commons on 20th August; he announced that it was intended to maintain a strict blockade not only of Germany but of all countries which had fallen into Germany's power, and said that any shortage in Europe was due either to German exactions or to the failure of the Germans to distribute the supplies at their command. The enemy must bear the responsibility for feeding the occupied territories, but the British Government would arrange in advance for the speedy provisioning of any area which regained its freedom. This was a pronouncement of the first importance.¹ It was given the widest publicity and represents the fullest statement of British policy on the general problem of relief. The Allied Governments in London, while recognizing the justice of enforcing the blockade on their countries, were

¹ The text will be found in Appendix II.

far from sure that this policy would not drive their people into a greater measure of co-operation with the Germans. It was in an attempt to forestall this danger that the British Government undertook to stock relief supplies for the day of liberation.

It was not at all certain that the British authorities could maintain the ban indefinitely, but in this as in other spheres it was felt that it was imperative to tide over the next few months; it was believed that the Continental harvests would be sufficient to prevent real shortage before the spring of 1941. No convincing proof of actual, or even imminent, starvation did, indeed, exist. German propaganda chose to deny specifically that any part of Europe which came under the New Order would go short. In answer to the argument that countries like Belgium, Holland, Norway, and Denmark had had before the war to import from overseas the greater part of their bread supplies, it asserted that Germany could now dispose of foodstuffs formerly exported from Denmark, the Balkans, and other parts of Europe. This propaganda line was followed very industriously by German broadcasters for some weeks in June and July 1940; *Deutschlandsender*, on 27th June, explicitly rejected Hoover's help.

Germany herself will not be affected by this hunger war waged by England; her government has provided against it. Hoover's intention to relieve the need in Belgium, France, and Holland deserves appreciation, but even before he expressed this intention the German forces have by practical deeds taken steps to counter the need and misery in these countries.

Nevertheless, on 5th July, Lord Lothian warned the Foreign Office that there were indications that appeals to the humanitarian instincts of the American people must be anticipated. The Pan-American conference, which was to meet at Havana on 20th July, was also expected to discuss 'humanitarian assistance to the victims of war in Europe'. The official United States attitude was, however, at this stage, satisfactory enough. In replying to an inquiry as to his government's attitude, Mr. Sumner Welles told Lord Lothian on 13th July that 'he himself, and officials of the State Department, and the President, as well as dominant American opinion were strongly opposed to any action which would relieve pressure on Germany by feeding the distressed people of Europe'. A formal statement of British policy was sent to Lord Lothian from the Foreign Office on 15th July; this argued that 'supplies admitted to the occupied territories either fall into enemy hands or release other supplies for the enemy', and that it would be false humanity to lengthen the war by allowing the enemy to be assisted in this way. A further telegram said that for these reasons the government felt obliged for all contraband-control purposes to treat unoccupied France in the same way as occupied

France; France was well known to be self-supporting in essential food-stuffs, and to allow supplies to pass through would encourage the transfer of the surplus to enemy hands. Nevertheless, to meet the special problems caused by the influx of refugees into unoccupied France and the dislocation of communications, safe conducts to Marseilles would be given for certain ships which had already sailed for France with cargoes of food. This telegram reveals some uneasiness as to the special case which might be made in Washington on behalf of unoccupied France, but when Lord Lothian gave Mr. Hull an *aide-mémoire* embodying the telegrams, the Secretary of State's only comment was that the best argument to use was that experience showed that it was almost impossible to organize any system of relief which did not mean that, directly or indirectly, supplies would be used to increase the food available to the controlling German Government. The Havana conference, which seems to have been the chief immediate reason for these telegrams, gave no prominence to the question of relief.

Mr. Hoover's campaign was opened with a press statement on 11st August. He thought that there was no reason why the sending of food 'should not be done again by a neutral non-governmental organization as was the case in the First World War', but he gave three points which must first be determined before any such aid could be sent from the United States. The first was that Germany should agree (*a*) to take none of the domestic produce of these people, (*b*) to furnish an equivalent of any food already taken, (*c*) to permit imports from Russia and the Balkan States, (*d*) to allow free passage of ships without attack, and (*e*) to permit adequate control of distribution by the organization so that it could assure itself that these guarantees were carried out. The second point was that the British should agree that 'ships carrying cargoes solely of food for these people should be allowed to pass their blockade so long as the guarantees are fulfilled'. The third was that the *de facto* or fugitive governments of Holland, Belgium, Norway, and Poland 'should finance such an organization with their resources in the United States and elsewhere—which are considerable'. The fact that the statement was made from the headquarters of the Republican candidate, Mr. Willkie, at Colorado Springs, and that it contained a direct criticism of the Administration, suggested that the campaign was at least in part a matter of party politics.

Mr. Hoover said:

Somebody must raise a voice for food supply during the coming winter to the 27 million innocent civilians, mostly women and children, in Holland, Belgium, Norway, and Poland. Possibly France also will be in difficulties. This subject needs clarification. It is impossible to understand what the Administration in Washing-

ton means by statements that they do not have any facts; or why they recall an ambassador because he states a fact. The obvious truth is there will be wholesale starvation, death and disease in these little countries unless something is done about it.

The reference was to the American ambassador in Brussels, Mr. John Cudahy, who had stated in an interview in London on 6th August that Belgian industry was in a state of stagnation, the harvest had not been gathered, bread was rationed at about $\frac{1}{2}$ lb. per day per head and that eight million Belgians faced starvation unless aid came from outside sources. He had also made other statements about Belgian conditions, and on 9th August was called home by President Roosevelt 'for consultation'. Mr. Hoover's announcement met with no support in Washington, where Mr. Sumner Welles, as Acting Secretary of State, said that he had no comment to make and would have none to make in the future. In private conversation with embassy representatives the plan was strongly criticized by members of the Administration, by Mr. Norman Davis of the American Red Cross, and by others. After his return and a discussion with the State Department, Mr. Cudahy said that he had been misquoted, and that he was authorized to say that no rebuke had been administered to him, or intended.

This, then, was the beginning of the food relief campaign, which with varying degrees of activity was to continue for the rest of the war, although little was heard of it after Pearl Harbour. It would be oversimplifying the whole character of the agitation to stress merely the internal political interests in the States which gave to the campaign much of its organization and strength; here, as in the United Kingdom, there were many who felt a genuine and disinterested concern for the sufferings of 'innocent civilians', and various humanitarian, religious, Quaker, and other agencies concerned themselves with the problem. Proposals for the relief of distress in the various occupied areas created a very natural sympathy among the appropriate national minorities in the States. But it seems clear that from the start the campaign was influenced by other than purely humanitarian considerations. German propaganda continued rampant during the winter of 1940-41; isolationism in all its aspects continued to be aggressively expressed, and the relief programme gave a most convenient opening to those who continued to regard the war as a 'conflict between rival imperialisms in Europe'. Hoover said on 11th August:

These little nations are being ground between the millstones of the food blockade. Great Britain and Germany against each other. They are blockaded by Germany from Continental supplies and Great Britain from overseas supplies. The Germans blame the British blockade. The British say the fault is the German invasion.

But the war was now so much a matter of alarming reality for the

American people that they were becoming less and less disposed to welcome superficial proofs of their own disinterestedness as a justification for inactivity in world affairs. The reception of Mr. Hoover's proposals by the United States press was in the main unfavourable, and they met with a weighty criticism by Mr. Walter Lippmann in his column 'Today and Tomorrow'; this brought out clearly the weakness of a plan dependent on guarantees which Germany had already shown that she had no intention of accepting. A Gallup poll on 1st September on the question, 'if there is starvation in France, Holland, and Belgium this winter, should the United States try to send food to those countries in our ships?' produced a decisive vote: 'should send food', thirty-eight per cent.; 'should not send food', sixty-two per cent. The relief campaign might well be expected to appeal to the masses in the food-producing areas of the United States, and to business interests in Chicago and elsewhere which would profit from increased exports. But among farm votes thirty-five per cent. said, 'should send food'; sixty-five per cent. said, 'should not send food'. Only one voter in ten who favoured sending food mentioned as his reason the fact that American markets would thereby be expanded.

Accordingly the opening shots in Mr. Hoover's campaign were not of sufficient penetrative power to drive the British from their positions. But the campaign continued, and in the meantime certain proposals for relief came from the Administration itself. These concerned shipments to unoccupied France. Pressure in favour of special treatment for this area had been exerted on the British Government from many quarters since the beginning of July. On 4th July Lord Lothian reported an inquiry from the French embassy in Washington as to whether any arrangement could be made to permit the passage through the contraband control at Gibraltar of French ships carrying foodstuffs to unoccupied France; on the same day the International Red Cross asked the Ministry, on behalf of the Brazilian Red Cross, in what way relief could be sent to refugees in France; on the 6th Mr. Howard Kerschner, Vice-President and Director of the International Commission for Assistance to Child Refugees, asked the British embassy in Madrid whether food shipments could be allowed to be sent through Marseilles to him, as Director of Relief in Europe, for the American Friends Service Committee, for distribution to destitute civilians. At an interdepartmental meeting in London on 11th July the Foreign Office representatives maintained that for political reasons it was desirable to make some distinction between unoccupied France and the occupied territories, and accordingly, as we have seen, Lord Lothian was told on the 15th that a certain number of ships would be allowed to reach France to meet the special problem of the influx of refugees. Lord Lothian replied to the American Friends on the lines of the government's general statement of policy on

15th July, but pressure continued. He received a letter from the American Red Cross describing the desperate situation of refugees in unoccupied France, and the complete freedom of action accorded to American Red Cross workers, and asking that the Ministry should agree to the passage of some further ships carrying food and medical supplies for sick, wounded, and children. A number of spokesmen of the Pétain government pressed the embassy strongly in favour of some form of relief as a means of encouraging resistance to complete subordination to Germany. Lord Lothian found that the President, although still firmly against any kind of general relief, also felt that something of an emergency character was necessary.

It was hoped that the decision to allow the ships (actually three in number), mentioned on 15th July, to go to Marseilles would meet the immediate emergency and satisfy the President; the fact that as late as 10th August two of these had not left South America suggested that the need might have been exaggerated. Lord Lothian was told, for the confidential information of the State Department, that large supplies were also probably reaching France from French North Africa, as the blockade in the Western Mediterranean was far from complete. The tactics that the Minister of Economic Warfare had decided to follow were to refuse all shipments for enemy-controlled territory, including unoccupied France; this was the 'first line of defence' and only if this proved untenable would the second line, that of carefully circumscribed concessions, be defended. In reply to an inquiry from the United Committee for French Relief as to whether permits could be granted for shipment to unoccupied France of twenty-nine cases of wearing apparel and 150 boxes of fruit juices, Lord Lothian was instructed on 23rd August to say that, as the Prime Minister had explained on the 20th, the British Government could not authorize relief shipments to any country under German occupation or control, and that it was necessary to treat all France as coming under this definition. When, however, Lord Lothian asked the President on 26th August as to his views about relief, the latter said at once that while he was entirely against any relief being sent to occupied areas, he was definitely and strongly of the opinion that there should be organized American effort, under American supervision, to supply milk for children, and medicines in unoccupied France. He did not see how this could be of any benefit to Germany, and he thought that it would enable the United States to keep a hold on unoccupied France and keep alive there the hope of a British victory. The ambassador does not appear to have made any attempt to combat these views, and, indeed, told the Foreign Office that personally he thought the President's solution to be the right one. Mr. Roosevelt had warned him that he would, if necessary, 'take action to induce us to allow such limited supplies through the blockade'.

Although it had been felt in the Ministry for some time that it would be impossible to refuse concessions if the President chose to insist on them, it was decided in this instance to try to maintain the 'first line of defence', and on 3rd September Lord Lothian was instructed by Lord Halifax to remind the President of the Prime Minister's statement of 20th August, to point out that there was no difficulty about strictly medical supplies (which were not contraband) and to add various facts about the availability of milk supplies. If the President still proved adamant he was to be strongly urged to hold his hand until the matter could be further considered. On 6th September the President told Lord Lothian that he would consult the British Government before he said or did anything, although he was still of opinion that the proposal was a wise one. The result of the Gallup poll may, however, have convinced him, as it had certainly convinced others in Washington, that from the point of view of public opinion the situation was not urgent.

(ii)

The Marseilles Leak

M. Morand was recalled to France soon after the armistice, and French interests in London remained for a time in the charge of the consul-general, M. Chartier. On 2nd August M. Chartier sent a protest to the Foreign Office against Mr. Dalton's announcement in the Commons on 30th July that it had been decided to assimilate both metropolitan France and Algeria, Tunisia, and French Morocco to the territory under German control. He claimed that the unoccupied zone and the French North African possessions stood in the same relation to the belligerent countries as neutral territories, but made the extremely damaging admission that there was no obstacle to the passage of goods from the unoccupied zone of France to the occupied zone. The note said that the Vichy Government would create special importing companies ('syndicats d'importateurs'), who would be solely responsible for handling imports from overseas through the British controls, and would ask for assurances from the German Government that it would not requisition any merchandise imported into the occupied zone from overseas. The Ministry pointed out to the Foreign Office that in a technical sense France, which was still a single political unit according to the terms of the armistice (article 3), remained a country in enemy occupation; in a practical sense the hypothesis could not be accepted that the French Government was an independent agent in a position to enforce its wishes in regard to imported goods. The Foreign Office replied to M. Chartier on 29th August.

To understand the complexities of the situation from the British angle we must remember that hope of resistance by the Pétain government to German pressure was never completely abandoned in London, and that the relaxation of the blockade was repeatedly demanded by the Vichy authorities through secret channels as a *sine qua non* of any measure, however slight, of increased, or even continued, self-assertion. Were French assurances merely a trick to secure the lifting of the blockade? While the Ministry concentrated attention on its appointed task of denying supplies to the enemy the Foreign Office and War Cabinet had to consider the wider political and strategical possibilities of the situation, and to ask whether it would not be good tactics to barter economic concessions to the Pétain government for a corresponding measure of French support. The goodwill of the United States Government was among the political advantages that might be involved in such transactions. The Ministry with its singleness of purpose tended therefore to appear to be a diehard opponent of concession. The essential conditions of the French problem were not, however, in dispute, either in London or between London and Washington.

What loomed largest in the Ministry's eyes during the winter of 1940-41 was the fact that the blockade had almost completely broken down—and had indeed never really been established—in relation to merchant shipping passing to and from ports in unoccupied metropolitan France. The reason was the inability of the Admiralty to provide warships for the work of interception in the Mediterranean, and its reluctance to provoke incidents with the French navy outside the Mediterranean. In the case of shipping between French North African and French metropolitan ports across the western Mediterranean there seemed no hope that arrangements could be made to intercept even unescorted vessels. Mr. Dalton ('making', as he said, 'a virtue of a necessity') and the cabinet accordingly agreed early in October not to try to interfere with this trade. But the Minister continued to urge that trade between metropolitan France and the Vichy colonies in West Africa (that is, French Morocco and French West Africa) must be controlled. It was certainly the agreed policy of the government to prevent this trade, with the dual object of (1) preventing supplies from reaching France, and (2) exerting economic pressure on the Vichy colonies so as to drive them into the arms of Free France. To the Admiralty warning that the Vichy navy was now escorting shipping and that interception might lead to the bombing of Gibraltar and to other possible consequences, Mr. Dalton replied robustly that if the British were 'intimidated' by the 'third-rate' Vichy escorts it was possible that Vichy ships might be used by the Germans and Italians to carry their goods as well; he pointed out that during the period from 16th September to 5th October no less

than twenty French vessels were escorted eastwards through the Straits and three westwards, but most of the escorts were 'purely symbolic'—sloops, armed trawlers, survey ships, and the like. A minute by Mr. Churchill to the Chiefs of Staff on 15th October seemed decisive. 'We must reassert our blockade of the Straits, dealing with vessels whether escorted or unescorted, though without violating Spanish territorial waters', he wrote; 'we should assemble a sufficient force at Gibraltar for this purpose at the earliest date possible.' He did not think that the French would interfere with the convoys to Malta, and if Vichy attacked Gibraltar then Vichy itself could be bombed, 'or any other place to which that caitiff government might resort'. However, by this stage secret conversations with Vichy were pending, and on 30th October the cabinet agreed to suspend action with regard to escorted merchant vessels passing through the Straits 'until the Vichy position cleared'.

The story of these abortive discussions is already quite well known and many of the considerations involved were diplomatic and strategical rather than economic. On the political side it is perhaps sufficient to say here that although the British Government was ready for any bargain which would help its war effort, it was forced back, again and again, to the conclusion that the Vichy authorities, even if they could screw up their resolution to resist German demands in any degree, were too resentful of British policy to be willing to embark on, or to be relied on to maintain, secret or tacit understandings.¹ Admiral Darlan resented both the damage to his fleet at Oran, and the evidence, on this and other occasions, that the British Government did not accept his assurance that the French fleet would never fall into German hands. The genuine collaborators, led by Laval, saw the future of France to lie in a complete identification with Axis aims; others felt that a quick collapse of British resistance was inevitable, that France owed nothing to Britain, that even if the continuance of British resistance were possible it would be unwise to support it. There were hopes of an acceptable settlement 'as between soldiers' in the circle nearest to Marshal Pétain. But there were also those who believed (with some justification) that the armistice terms were far better than France had had reason to expect and that the failure of the Germans to occupy North Africa was a real advantage to the

¹ A full account, based on the Foreign Office papers, must be looked for in the official history of British foreign policy. W. L. Langer, *Our Vichy Gamble* (1947), is a study based on documents in the State Department, and covers all aspects of the official policy of the United States towards Vichy France. It deals fairly, but not very fully, with the blockade, and has a useful account of the French political situation. A number of French memoirs describe the secret discussions with the British Government: Louis Rougier, *Mission secrète à Londres, Les Accords Pétain-Churchill* (1946); Paul Baudouin, *Neuf mois au Gouvernement, Avril-Décembre 1940* (1948); F. Charles-Roux, *Cinq Mois Tragiques aux Affaires Etrangères (21 Mai-1er Novembre 1940)* (1949); Prince Xavier de Bourbon, *Les Accords Secrets Franco-Anglais de Décembre 1940* (1949).

Allies which it would be unwise to jeopardize, and which might turn out to be of vast strategical importance in the future. It seems clear now that Pétain, and in a rather more resolute way General Weygand, hoped for a British victory, but were determined to maintain the armistice position and to help neither belligerent so long as the final issue of the war was undecided. In the meantime they would use their limited means of persuasion to secure from both belligerents the means for the economic survival of post-belligerent France.

The result, as far as the British Government was concerned, was highly confusing; there was a double set of secret negotiations and in the more secret of the two the hope of an eventual re-entry of France into the war was kept alive. There were various messages from the French Foreign Minister, M. Baudouin, to this effect during September 1940; these asked for supplies and promised that neither these nor their equivalent would reach German hands. There was a further message on 14th October, and then a visit (22nd-29th October) from a Vichy emissary, Professor Rougier, who had previously conferred with Pétain and Weygand, and whose mission was concealed from Laval. He saw Lord Halifax and Mr. Churchill; the so-called Pétain-Churchill agreement which followed appears to have been an exchange of views rather than a binding arrangement, but it was made clear that the British desired the adhesion of North Africa to the Allied cause, and bases in Tunisia.¹ The Montoire conferences of 22nd and 24th October, and messages, on Mr. Churchill's initiative, by King George VI and President Roosevelt to Pétain on the 25th, show that the British Government at this point regarded Vichy collaboration with Germany as much more likely than any act of defiance.

There was, however, no essential change; Marshal Pétain promised Hitler in general terms at Montoire that France would support Axis measures to defeat Britain, but he hoped to evade the fulfilment of this promise by a policy of procrastination. On the other hand, no agreement had been reached with England. When Mr. Dupuy, the Canadian *chargé d'affaires*-elect, saw Pétain he received only very qualified promises of French connivance with British policy. He reported on 24th November that Pétain asked for the curtailment of de Gaulle's activities in Africa; on 1st December that Pétain had said that he might have to cede bases to Germany in return for compensation, although this intervention against Britain would be passive and not active; and, after seeing Pétain and Darlan on 6th December, that Darlan had made it clear that the French Government might not be able to resist German attacks on the Free French colonies later than February 1941. Dupuy then travelled to London via Madrid,

¹ Baudouin in his diary (9th November), calls it a draft agreement, which he was sure Pétain would ratify (Baudouin, *op. cit.*, p. 393).

and brought with him a statement of Pétain's proposals, based on the Rougier report: France would not surrender metropolitan or African bases to Germany; French troops in the French colonies and empire would oppose any attempt at invasion, from whatever quarter; the fleet and the colonies would not be ceded at any price or under any pretext to the Axis powers. Britain in return would, when the time came, give whatever help she could to restore France, and in the immediate future would relax the blockade of North Africa. The Marshal also assumed (apparently on the basis of some encouraging remarks by Mr. Dupuy), that, on the vital question of the supply of petrol and of vegetable oils, accord had been reached with the United Kingdom in principle, and that it only remained for technicians to work out the details at Madrid.¹

All this is the political background against which the blockade issues had to be studied. Pétain's assurances were of too circumscribed a character to satisfy British requirements, and they contained no guarantee that the substantial economic help demanded by Vichy as an immediate counter-concession would, or indeed could, be kept out of German hands. A message from Mr. Churchill to the Marshal on 31st December 1940, offering to send a well-equipped force of six divisions to aid in the defence of Morocco, Algiers, and Tunis, 'if at any time in the near future the French Government decide to cross to North Africa or resume the war there against Italy and Germany', remained unanswered.² At the most, therefore, Pétain's secret messages meant that France would associate herself with the victors in the hour of victory. And in the meantime her help to the Axis might give that victory to Germany.

For the gap in the blockade was steadily widening. It was claimed in the French press that during October no less than 40,000 tons of wine, 32,000 tons of groundnuts, 35,000 tons of phosphates, and 100,000 tons of foodstuffs had been shipped from African ports to France. Of these the groundnuts at least must have come from West Africa. A press report in November said that three ships carrying more than 10,000 tons of meat and cereals from Buenos Aires had been landed at Moroccan-Atlantic ports and thence railed across to the north coast, where they were transhipped to Marseilles. There were indications of increased shipments of rubber from Saigon (the s.s. *Linois*, which passed Gibraltar, eastbound, on 28th December, carried 2,000 tons). Large shipments of sugar had been made from the Antilles and from Réunion. Up to the end of 1940 few movements

¹ This was the alleged Halifax-Chevalier agreement, which was quoted at the Pétain trial in 1945. The text is given in Prince Xavier de Bourbon, *Les Accords Secrets Franco-Anglais de Décembre, 1940*, pp. 45-47. He says that a telegram from Dupuy, 'Tout va bien', to Chevalier, signified the acceptance of this document by Lord Halifax as a 'gentlemen's agreement'.

² The text of this letter is given in W. S. Churchill, *Their Finest Hour*, pp. 550-51.

of tankers had been reported, although the *Roussillon* passed Gibraltar, eastbound, on 3rd November, with a cargo of lubricating oil for Port de Bouc, and the *Vendémiaire*, which passed eastwards on 18th December, carried crude oil. There were thus many indications that regular services were being established between (1) France and Casablanca, Dakar, and the Ivory Coast; (2) the Antilles and the United States, for transshipment to France; (3) Madagascar, Réunion, and Saigon. According to the Ministry's estimates, 548,600 g.r. tonnage of shipping (estimated cargo 700,000 tons) passed west to east from French overseas ports through the Straits of Gibraltar from July to December 1940, and 261,607 g.r. tonnage (estimated cargo 325,000 tons) passed from east to west.¹ The latter figures showed that France was sending exports, such as wines and essential oils, to America, and there were signs that this traffic was being fostered. The United States' blocking of French balances applied to those held in the States at the time of the armistice; no restrictions were being imposed in respect of current transactions. Mr. Dupuy reported at the end of December that the French Government 'greatly appreciate the indulgence with which the British blockade has been applied to France', and the Ministry wondered whether the French could possibly imagine that the relaxation of the blockade was intentional and not involuntary!² It seemed unlikely that the French were deceived: from another source the Ministry had heard at the beginning of December that the 'blockade' was a source of intense amusement to the French naval officers at Casablanca, who held a regular sweepstake on the number of French vessels which would get through to Marseilles, and boasted openly of their having defeated the might and majesty of the Royal Navy with one small trawler armed with a six-pounder.

¹ The detailed figures were:

		<i>Imports</i>	
July-September	. . .	18 vessels	80,146 g.r.t.
October . . .	. . .	38 vessels	147,355 g.r.t.
November . . .	. . .	32 vessels	176,197 g.r.t.
December . . .	. . .	34 vessels	144,902 g.r.t.
			<u>548,600 g.r.t.</u>
		<i>Exports</i>	
July-September	. . .	1 vessel	2,047 g.r.t.
October . . .	. . .	2 vessels	8,423 g.r.t.
November . . .	. . .	12 vessels	50,498 g.r.t.
December . . .	. . .	45 vessels	200,639 g.r.t.
			<u>261,607 g.r.t.</u>

² Langer (*op. cit.*) also seems to think that the relaxation was voluntary (p. 89). Prince Xavier de Bourbon (*op. cit.*, p. 50), is certainly wrong in saying that until the beginning of December 1940 the British Government '(malgré quelques atténuations de détail du blocus) avait strictement interdit à nos bateaux le passage de Gibraltar . . .'

The cabinet gave instructions on 18th November that escorted French convoys through the Straits of Gibraltar were to be intercepted, and the Admiralty was willing enough to comply, but the problem of finding warships remained. One or two vessels were intercepted, but further action had to be suspended when 'Force H' proceeded into the central Mediterranean. On 6th December, when the Chief of Naval Staff reported that action against escorted French convoys could again be taken, the cabinet reaffirmed the instructions of 18th November. But the number of warships that could be spared for the work was still very limited. There was much correspondence between Mr. Dalton and Mr. A. V. Alexander on the question in November, December, and January, and it was the Admiralty view throughout that interception could not be given the high degree of priority that the Ministry demanded. Mr. Alexander even proposed on 16th November that some form of rationing agreement should be negotiated 'under which we would allow a certain amount of trade to pass between unoccupied France, French Morocco, and French West Africa, the exports from those colonies to consist only of their own products and not to include transshipment cargoes from the Americas, etc'. There were, however, many obvious objections to this course,¹ and Mr. Dalton continued to press for effective interception. Mr. Alexander gave a long explanation of the Royal Navy's commitments on 3rd January 1941: 'the margin of naval strength in relation to our commitments is smaller than at any time in modern naval history'. He insisted also on the danger that the French navy might be driven into action against the British.²

With this the Ministry had to be content for the time being, although occasional interceptions took place.³ It is not, however, difficult to understand why it viewed with scepticism and impatience the assumption that the severity of the blockade was driving the French to despair.

¹ The impossibility of preventing assistance to Germany; demands for similar concessions for Holland, Belgium, Norway, etc.; the absence of British agents in France or the French colonies; the undesirability of conferring on French ships any quasi-neutral status; the absence of any evidence that the French Government or their German masters would agree. Interception would still be necessary to see whether the rationing agreement was being strictly observed. Mr. Dalton replied on these lines on 26th November 1940.

² Mr. Alexander wrote on 25th December that since the cabinet decision of 18th November forces for interception had been available on only five days. A further attempt to intercept would be made between 25th and 28th December, after which the naval forces would be completely employed for a major operation. Subject then to any further demands for military convoys or Atlantic patrols, a still further attempt would be made. Four French ships were in fact intercepted in the Straits on 1st January 1941.

³ Admiralty instructions dated 2nd January 1941 said that escorted French ships passing from west to east were subject to control but (1) Admiralty instructions were necessary for interception on each occasion; (2) interception should take place only if overwhelming force were available; (3) if French warships resisted, force might be employed, but the British were not to fire the first shot. Unescorted French merchant ships were to be sent into an Allied port for examination. In the Straits of Gibraltar only, French territorial waters might be infringed for the purpose of intercepting either escorted or unescorted ships.

There seemed ample evidence that many of the supplies reaching unoccupied French ports were passing into German and Italian hands. A despatch from Sir Samuel Hoare on 1st January 1941 said that the general 'on dit' in Marseilles was that forty per cent. of the food arriving there went to Germany, forty per cent. to Italy, and the rest to occupied territory. This confirmed a long series of reports through various channels from Vichy (a number came through the State Department) which were remarkably unanimous in showing that the lion's share fell to the Axis powers, although the exact percentages varied. Similar evidence from other sources, notably intercepted letters, gave twenty per cent. as the share of Vichy France, and as the unoccupied zone was economically dependent on the occupied zone (which produced most of French cereals and practically all the iron, steel, and coal, and where the greater part of French industry was situated) it was clear that, apart from political pressure, the Vichy Government was bound to be subservient in economic matters to the German Economic Staff in Paris. Exchanges were known to be taking place. Vichy aluminium, for example, was being exchanged for deliveries of coal. It seemed to the Ministry only too probable that the growing magnitude of the leak in the blockade would lead Germany to demand the diversion of greater and greater supplies. In the first place she would presumably wish to use available French shipping to lift the maximum quantities of oil-seeds from French West Africa. These the Ministry believed might amount to 700,000 tons or more, a quantity which would, if diverted to Germany, do much to remove the principal weakness in her fats position. Her next interest would presumably be in the produce of the Americas. In spite of British and American control-at-source of many commodities, there were substantial uncontrolled surpluses. The following rough estimate of available South and Central American supplies was drawn up by the Ministry in January 1941 for the education of the Admiralty:

<i>Commodity</i>	<i>Possible available surpluses (tons)</i>	<i>Approximate percentage of German annual deficiency(1)</i>
Copper	30/40,000	10
Lead	100/120,000	100
Tin	12,000	30
	(4,000 t. metal)	
Wool	100,000	100 or more
Cotton	200,000	68
Rubber	5,000	5
Hemp	50,000	50 or more
Hides and skins	120,000	100
Quebracho	100,000	100
Maize	(say) 3,000,000	100
	(or more)(2)	
Wheat	1,000,000(3)	
Linseed and cotton	1,000,000	
Castor seeds	45,000	(4)

- (1) i.e. Altreich, Austria, and the Protectorate.
- (2) This quantity would not only supply Germany's deficiency, but a large part of that of the occupied territories as well.
- (3) No shortage at present in Germany, but this quantity would cover the deficiency of the occupied territories and enable Germany to conserve her stocks.
- (4) Would cover all Germany's requirements of vegetable oils for technical purposes and provide fifty per cent. of Germany's peace-time consumption of oil cakes.

It was not, of course, necessary to assume that Germany would succeed in obtaining the whole of these uncontrolled surpluses. But if she succeeded in obtaining seventy-five per cent. in the case of, say, half of them the results would be sufficiently grave.

It was just at this moment in January 1941 that the Vichy Government followed up a British invitation, sent through Sir Samuel Hoare on 29th November, for discussions on economic matters in Madrid with a Vichy representative. No immediate reply had been received to this proposal, as it had, according to Mr. Dupuy's information, been stopped by Laval and never submitted to Pétain. Dupuy, however, brought back to London a proposal from Pétain, Darlan, and General Huntziger for a secret meeting between a French expert and a British blockade expert, to be arranged through the French and British embassies in Madrid. It was on this occasion that the French expressed their appreciation of the indulgence with which the blockade had been applied. On 27th December news came from Madrid that the Vichy Government had agreed to economic discussions.

It became clear from these approaches that France was faced with two serious and genuine deficiencies. The first was oil.¹ The French ministers told Dupuy that they needed supplies to maintain their public-utility services and to refuel ships of their mercantile marine in North Africa; a small quantity of aviation petrol to permit the training of the pilots which they were maintaining in North Africa against the terms of the armistice; and a small quantity of ordinary petrol for the distribution of foodstuffs in unoccupied France. When Dupuy asked about guarantees, Darlan said that this could easily be arranged on the spot as far as North Africa was concerned, and Dupuy was told later that the Résidence Générale in Morocco was prepared to accept inspection by American controllers. The second deficiency was in cereals. Further proposals were presented by the counsellor of the French embassy at Madrid on 10th January 1941. The substance of these was a demand for navicerts for 600,000 tons of wheat and 200,000 tons of maize from the United States or South America. Guarantees were offered that the cereals would be consumed exclusively in non-occupied France and would not serve to

¹ Cf. Admiral Auphan's estimate on 3rd December 1940 of only six weeks supply in France for factories and for communications with North Africa. (Prince Xavier de Bourbon, *op. cit.*, pp. 30-33.)

release a similar quantity of home-grown cereals for export. Representatives of the United States Government would be given full facilities to control distribution. The need was urgent, as certain districts would be without bread by 25th March. Safe conducts for ships were therefore requested before a general economic agreement was made. It was also asked that the British Government should guarantee that products coming from the French African Empire including Morocco should be allowed free passage, and that any such guarantee should be extended to cover products of the rest of the French Empire, including Syria. The preposterous character of these proposals was increased from the Ministry's point of view by the fact that M. Flandin, the new French Foreign Minister, had considered it necessary to secure the consent of the Germans (through the Armistice Commission) beforehand.

(iii)

French North Africa

The cereals proposal had no chance of acceptance in the existing political circumstances, and was not supported in this form by the State Department, although a more limited scheme was put forward. The State Department had, however, by this stage, determined on a comprehensive programme of economic aid to French North Africa.

Whatever its doubts about Vichy it felt that the balance of advantage was in favour of substantial economic assistance to General Weygand. Laval had succeeded in forcing Weygand's resignation on 9th September 1940 from the post of Minister of National Defence, but he had then been sent to North Africa with authority over Tunisia, Algeria, and French Morocco, and also over the French West African possessions. A few days later came a message from Baudouin to the British Government proposing a colonial *modus vivendi*; there followed the Dakar episode and two bombardments of Gibraltar, and a threatening message from the French Admiralty, but there were then renewed, though vague, assurances that neither the fleet nor the French colonies would fall into German hands. The State Department established contacts with Weygand through various channels, including Mr. A. G. Reed, manager of the Socony-Vacuum Oil Company in Morocco, M. Monick, the newly-appointed secretary-general of the French protectorate, and in December through Mr. Robert Murphy, formerly United States Consul-General and Counselor of Embassy in Paris. The Department's interest in trade with French North Africa was explained to representatives of the British embassy on 18th December. Professor

Langer's account shows that discussions on the question had been proceeding in the State Department for some weeks between the Near Eastern Division, the Trade Agreements Division, and the Office of the Economic Adviser. The economic adviser was strongly opposed to a trade agreement, however, and it was at first thought that any American trade would have to be arranged through the limited commercial contacts with which the British were cautiously experimenting. Mr. Adolph Berle, however, who was indirectly responsible for the near eastern division of the State Department, finally overruled the economic adviser, and decided in favour of the view that ample economic assistance would prevent an economic collapse and bolster up North African morale.¹ He was gambling on the willingness and ability of General Weygand to resist Axis pressure; the British felt that a much more restricted and carefully safeguarded policy must at this stage be followed.

The British Government's view was that its primary aim must be to prevent Morocco from becoming a channel for enemy imports and exports. It had, however, decided during November 1940 that in order to avoid the risk of internal trouble in Morocco limited quantities of green tea and sugar should be allowed to reach the Moors, provided that Britain could obtain essential requirements of phosphates in return. This would have the advantage of saving dollars and the long haul of phosphates from Florida. Apparently owing to German opposition negotiations in this direction made no progress; the Spanish Government intervened with an urgent demand for Moorish phosphates for its 1941 harvest, and the British Government felt it necessary to grant Spain the requisite credits for the purchase of green tea and sugar in the sterling area, in part exchange for the phosphates. The result was embodied in the Anglo-Spanish-Moroccan agreement of 29th November (see p. 545). Britain's immediate need for phosphates had, therefore, to be covered after all in Florida, but negotiations were then resumed with Morocco, as further phosphate supplies were urgently needed. But no progress had been made up to the end of 1940. The French Moroccan authorities, under the orders of the German Armistice Commission, were still debarring twenty-five British, Allied, and neutral ships from leaving their ports, and the release of the ships was the *sine qua non* of any agreement. But even if the release made some trade possible, the British authorities did not propose at this stage to allow the importation of more than tea and sugar and a very small amount of cotton piece-goods; they would restrict exports to an equivalent value of

¹Langer, *op. cit.*, pp. 106-08. He does not mention that there were also discussions at a higher level between Lord Lothian or Mr. Butler and Mr. Sumner Welles on various occasions (notably 27th November, 23rd and 27th December), regarding blockade policy towards Vichy dependencies.

goods such as phosphates, and minerals such as cobalt and molybdenum, which were German deficiencies.¹

Mr. Berle on 18th December set out American plans for a policy of rationing which would maintain the economic structure of French North Africa and also prevent supplies intended for Morocco from reaching Europe. He was not in favour of barter deals. He believed that the French were prepared to be rationed. He also made it clear that a rationing system must not be operated to the exclusive advantage of British commercial interests: the fact that navicerts for United States sugar had been refused while sugar had been supplied from British sources under the Spanish-Moroccan agreement had led to representations to the State Department from the United States firms concerned. But he said that the Department wished to understand and keep in step with British policy.

The obvious dangers in this programme were that control could not be guaranteed, that commodities considered dangerous would be allowed in, and that American commercial pressure would reinforce the inclination of the State Department to take risks. Against this had to be set the fact that a rationing agreement, if it could be strictly applied, would have its advantages, that the United States had the last word, and that there was clearly something to be said for the theory that economic aid would strengthen resistance. The British reply, drafted by the Ministry and accepted by the Foreign Office, was sent on 11th January 1941. It explained that no trade had taken place between Britain and Morocco since the armistice, that the barter agreement, the supply of green tea and sugar through Spain, and the negotiations for minerals were restricted in aim, and that the British Government was opposed to a rationing agreement, and reluctant to agree to any imports into Morocco without some corresponding sign of goodwill. There was no intention or desire to discriminate against American interests. 'The French population know that they have nothing to fear from our victory and if we relax the blockade unconditionally will conclude that they have more to gain by keeping in with the Germans than with us. This, we fear, is Latin logic.' A memorandum was drawn up on these lines (dated 24th January), but its presentation was delayed owing to Mr. Berle's absence from Washington. He returned only on 28th January, and on the previous day Mr. A. K. Helm of the British embassy was invited to the State Department for another exposition of American policy.²

¹ A telegram to the Foreign Office from the British consul-general in Tangier on 18th November 1940 stated that Casablanca was now serving as a fuel and supply base for Italian and German submarines.

² Langer (p. 131) suggests that the delay in presenting the British reply was probably due to delaying tactics by the Ministry of Economic Warfare. What delay there was was due mainly to the interregnum at the embassy caused by Lord Lothian's death and partly to Mr. Berle's absence from Washington.

Mr. Helm was told that as a result of consideration in the highest quarters and of reports from Mr. Murphy on his recent interviews with General Weygand 'it had become a point of American policy' to see that North Africa did not disintegrate. Accordingly a measure of trade was essential. What was visualized was the supply to the native population of simple imported requirements, and the supply of limited quantities of essential products including oil, so as to encourage General Weygand and his troops and to make them feel that they could look elsewhere than to Germany for supplies. On the following day the British memorandum was presented to Mr. Berle, who without reading it said that the United States Government had decided to go ahead.¹ The British asked for information as to the kinds and amounts of commodities in which the United States Government was interested, and asked also that key commodities should not be imported into Morocco, and that any United States shipments should be contingent on the handing over of the British ships. But it became clear in the next few days that the State Department was not prepared to bind itself on any of these points. Mr. Hull told Lord Halifax on 10th February that his government was going ahead with its arrangements for 'offering relief of food and goods' by sending gasoline, sugar, and other staple commodities; it was not prepared to do anything about the ships.

More detailed information about the requirements of the French North African possessions was in the meantime being gathered for the State Department by Mr. Murphy, and for the British Government by Mr. David Eccles. Mr. Murphy's report in January explains the decision to go ahead; he returned to North Africa and on 26th February signed an agreement with General Weygand providing that excessive stocks should not be accumulated, that imported and similar products should not be exported in any form, that the United States Government should authorize representatives for control purposes in ports and on the railways, and that any breach of the undertaking against re-exportation should be followed by the automatic cancellation of the co-operation between the United States and French North Africa.² Mr. Eccles had in the meantime been arranging in Tetuan exchanges whereby French Morocco would supply Spanish Morocco and Spain with foodstuffs, and in return Britain would supply certain goods to French Morocco. These limited exchanges, arising from the Anglo-Spanish agreement, were intended to meet the famine conditions in the Spanish zone, and to impress the French with Britain's ability to do so. The French zone was well

¹ Langer (p. 133) says that the embassy note 'struck a somewhat patronizing tone'. It is difficult to see how anything of the sort can be read into the carefully-phrased British documents.

² Langer (p. 135): the text of the Murphy-Weygand agreement is given in Appendix I, pp. 399-401.

supplied with cereals, and the exchanges had various advantages: relations between the zones would be improved; Britain would find it more expensive to feed the Spaniards from other sources; if the Spaniards received the food it could not go to France. Mr. Eccles believed that opinion in North Africa was beginning to swing in Britain's direction, and that a small show of generosity would achieve a big success. To this extent he was nearer to the views of the State Department than of the Ministry of Economic Warfare, although more cautious than the Americans in his estimate of the extent to which the blockade should be relaxed. His view was that economic pressure on French Morocco was essentially a question of oil and coal, and that the blockade could be safely limited to a uniform policy with the United States on these two commodities.

It must be remembered that at this time the success of General Wavell's first campaign had aroused hopes in some quarters that he might push past the Gulf of Sidra and make contact with the French in Tunisia; on the other hand there were fears that Pétain would be forced to take back Laval, and that the Germans and Italians might seize Bizerta. The Armistice Commission, which had consisted mainly of well-behaved Italians in the first months, began to be reinforced by German officials during November and December 1940, and although alarmist reports in the new year of thousands of German officers and men proved to be untrue it was established in February that there were sixty to eighty German agents in North Africa. By this stage American plans for supplying North Africa were being considered by the British cabinet along with President Roosevelt's proposals for sending supplies to unoccupied France; the Hoover relief campaign was becoming an increasingly important factor in the situation; and in England itself indignation was mounting against reports of concessions to the Vichy régime. We must turn back now to trace the course of the relief campaign, and its effect on British and American policy.

(iv)

The Vichy Gamble

Up to the end of 1940 the British embassy in Washington and the Foreign Office were satisfied that the relief agitation had not yet succeeded in influencing the main currents of American public opinion. It was known, however, that Mr. Hoover was building up an organization, and was working hard to collect information from European and American sources, in order to reinforce his campaign. For this purpose he made use in London of Mr. Hugh Gibson, the

former United States ambassador to Poland, and in the States of Mr. Cudahy. He also had a representative in Lisbon, and various contacts in Berlin. A part of the work of Mr. Hoover's organization was to keep in touch with British sympathizers and to broadcast in America views which were then receiving little attention in England. In the middle of October 1940 definite evidence came into the Ministry's hands that the organization was seeking to arrange for precise statements from leading figures in Belgium, Holland, and Norway emphasizing the need for imports and the impossibility of getting supplies from anywhere in continental Europe. The statements were to give the amount of supplies required and the existing food situation, including the weekly ration, and were to refer to Hoover's success in the last war in distributing relief without benefit to the Germans. Thus there appeared to be evidence from more than one source that public opinion and appeals for help were being artificially stimulated. During Lord Lothian's visit to England in November 1940 he told Mr. Dalton that the President had said that if each ship going to Europe carried a couple of truck loads of tinned milk for unoccupied France it would greatly help 'to ease the pressure against us'. But Mr. Dalton was not convinced. 'Once we began to discuss allowing food through on any conditions, we were on a slippery slope and we might be forced to modify the conditions.' He was therefore in favour 'of holding to our present position until the agitation was much stronger than it yet appeared to be'. A further indication of the views of the embassy was a telegram from the *chargé*, Mr. Butler, on 16th November; he mentioned that Mr. Walter Lippmann had that afternoon deprecated anything like a quarrel between the British Government and Mr. Hoover personally, and he suggested that Mr. Dalton should, in a forthcoming broadcast, avoid 'attributing opinions to any particular sections of the American public'. A rather curt reply said simply that Mr. Dalton would 'expound the policy of His Majesty's Government'.

The occasion of Butler's telegram had been a broadcast speech by Mr. Hoover at Vassar on the previous day (15th November). The Belgian Relief Commission of the last war was, as usual, described as an unqualified success, which satisfied the most rigorous investigations of the British Government, and as evidence that a similar system could be introduced again. Mr. Hoover referred to safeguards, but these did not now include control and supervision by an American, or indeed by any neutral, organization. They did, however, include the quite impracticable condition that Germany should furnish an equivalent for any food she had already taken. A very effective reply was made by Mr. J. B. Priestley in a wireless talk on 20th November. 'Can you imagine the Nazis solemnly making an inventory of all the edible loot they've taken from Poland, Norway,

Holland, Belgium, France?" he said. 'Why, if they're capable of furnishing the equivalent of what they've already stolen, then they're capable of feeding these people themselves without any interference with our blockade.' He went on to say that whatever the safeguards the Nazis would get round them, and he refused to accept Hoover's view that the question of responsibility was a matter of indifference. 'These shortages are entirely due to Germany's systematic plunder.'

The Hoover campaign was, however, now well launched. It is probable that by this stage President Roosevelt had made up his mind to insist on milk for children in unoccupied France. On 28th November Mr. Norman Davis, Chairman of the American Red Cross, made definite proposals to Lord Lothian for the sending of medical supplies, milk, and vitamin concentrates. At the beginning of December Mr. Hull saw Mr. Hoover and persuaded him to lessen his campaign for a few weeks until the United States Government had thought the matter out. On the 4th, Mr. Hull again pressed on Lord Lothian the plan for milk for children in unoccupied France, which he thought would cut away a lot of the agitation for relief to Europe. Lord Lothian again supported this recommendation, arguing that it would satisfy a large proportion of those religious and humanitarian people who were disturbed by Mr. Hoover's agitation. The Administration, of course, was not thinking only of internal American policy and opinion. It had decided to do what it could to encourage the Vichy Government to stand up to the Germans, and on 23rd December Admiral Leahy left for France with a warm letter of personal commendation from Mr. Roosevelt to Marshal Pétain.

Mr. Dalton's broadcast on the night of 30th November did not mention relief except to remind listeners of the Prime Minister's statement on 20th August that food stocks would be accumulated against the day when the enslaved populations were liberated. It attempted to appeal to American opinion by explaining the real character of economic warfare, and thereby foreshadowed the line followed with some success by British publicity in the United States in 1941. A telegram on 5th December gave a careful explanation of the British objections to Norman Davis's proposals and instructed Lord Lothian to put these 'quite frankly to the President'. On 8th December Mr. Hoover published a manifesto signed by 140 leading Americans, including General Pershing, Charles G. Dawes, Charles Francis Adams (late Secretary of the Navy), a number of religious leaders including John R. Mott and Cardinal O'Connell, and others. It appealed for a neutral organization by which supplemental supplies could be imported through the German and British blockades for the 'five small democracies (including Finland)'; two weeks' supplies of imported foods would be the maximum stocks maintained inside the countries at any one time. A long statement of the British

case was issued opportunely on the night of 10th December; it referred to Mr. Hoover's 'noble services' during and after the last war but said that after 'most careful consideration' the British Government had been reluctantly forced to the conclusion that any such scheme as Hoover proposed 'must be of material assistance to Germany's war effort, and would thereby postpone the day of liberation of these peoples from German subjection'. It said that the risk of starvation appeared to have been greatly exaggerated, and that all the resources of the countries under German occupation which bordered on the North Sea were being relentlessly harnessed to the German war machine for the active and ruthless prosecution of the war against Great Britain. The statement was well received in the American press. The embassy heard privately that Mr. Hoover was 'very angry'; his committee, however, published a statement expressing deep sympathy with Great Britain, and saying that it recognized that in view of Lord Lothian's statement a solution was deferred. The sudden death of Lord Lothian prevented the frank statement of the case which the Foreign Office had instructed the ambassador to make to the President, but this matter was settled for better or worse by a personal message from Roosevelt to the Prime Minister at the beginning of January 1941. The British Government had no real option but to agree to the President's proposals, which were virtually the same as those put forward by Norman Davis on 29th November and included provision for relief for Spain, in accordance with Britain's own wishes. The President had, however, made it clear in his message that he did not wish to weaken the blockade, and that he believed it to be Germany's responsibility to feed the occupied territories.¹

This decision meant that the Ministry had had to abandon its first line of defence. The next problem was to defend the main position: in other words, to prevent this limited concession from being used to justify further and further modifications of the ban on food imports to enemy-controlled territories. Three telegrams defining the British Government's position were accordingly sent to the embassy on the evening of 8th January 1941. The British Government would resist claims either for further concessions for adults in unoccupied France, or for children in the occupied territories. It was emphasized that relief for Spain was on a different footing. Whatever her ideological affinities with the Axis, she was a non-belligerent; 'she observes the ordinary rules of neutrality and is entitled to its benefits'. Semi-starvation there was due, not to exports of food to the enemy,

¹ *The Memoirs of Cordell Hull*, i, 881. The French ambassador, Henry-Haye, admitted on 7th December that the Germans had taken over 'immense quantities of food in unoccupied France' (p. 885). Mr. Hull, like other Americans, appears from his memoirs to be unaware of the leaks in the blockade.

but to the chaos caused by the civil war. Unoccupied France was, on the other hand, under enemy duress both political and economic, and was neither a neutral nor a non-belligerent, but a defeated country on which further conditions might be imposed at any moment.

As a result of a leakage in the State Department or the French embassy news of the impending decision was published in a fairly accurate form in the United States press on 8th January; a British statement appeared in the American papers on the 9th. The initial comment was extremely favourable. Although it was hoped that further relaxation would follow, there seemed to be general understanding of the difficulty of the British Government in relieving distress without assisting the enemy. Mr. Hoover expressed his approval of the relaxation and hoped that it would lead to similar constructive action in favour of 'the five small democracies'; this received some attention in the press, but there was no sign at the moment of the Hoover campaign being generally revived. Indeed, the British action caused some confusion and criticism in various sections of the press, including those which had been staunchest in justifying the extreme application of the blockade in recent weeks. The *Herald Tribune* on 9th January, while appreciating the humanitarian considerations prompting the British action, feared that Nazi blackmail had again succeeded. Mr. Elmer Davis on 21st January and on other occasions criticized the 'appeasement' of Spanish Fascism. In general, however, it appeared that the immediate effect of the relaxation was satisfactory enough as far as American opinion was concerned. During the rest of January the Hoover propaganda received little prominence in the press, and the possibility that the relief question would be used to mobilize support for the campaign which Mr. Hoover was directing against the 'lend-lease' programme seemed to have been avoided.

One function of the Hoover organization was to keep in touch with British sympathizers and to broadcast their views in America; as these were often quite unrepresentative of British opinion at the time, it was hoped that the appointment of Miss McGeachy (see p. 499) would enable her to put the position in its true light. Contact was also made with the different international voluntary organizations. The British national sections of these societies have always held an influential position, and many maintained their headquarters in London. Steps were taken to explain to the responsible officers and members the reasons why Britain found it necessary to engage in economic warfare, the way in which this weapon worked, and the results it sought to achieve. Resistance by the civilian populations of the occupied countries was just making itself felt, and an account of the way in which this was hindering the plans of the occupying power

added considerable strength to the main argument. As a result the voluntary societies concerned with Europe undoubtedly became in many cases valuable allies in the effort to present a true picture of the relief problem to North and South America. Many hundreds of personal letters were written by British people, and European people in England, to friends in North and South America; these also helped to provide the right background for British publicity in the United States. The first essential seemed to be to place discussion of the blockade in its right perspective by emphasizing the British conception of the true meaning of the war, and the nature of the growing resistance within the occupied countries. This particular aspect of British publicity work was, indeed, concerned as much with the more long-term problems of the effects of isolationism on British economic warfare as with the day-to-day difficulties that arose.

Lord Halifax, who had arrived in the United States as ambassador on 24th January, soon convinced himself that the relief campaign was partly an attempt 'to rouse further opposition to the lease-lend bill and to advance non-intervention'. On 5th February Mr. Hoover called on the ambassador, and outlined new plans. Lord Halifax put forward the usual objections in reply; Mr. Hoover, he wrote afterwards, 'displayed little interest in my arguments, but when I had finished said rather forcibly that the British statistics were wrong and inferred that he knew more about the situation than we do'. On the same day in London Mr. Eden asked Mr. Harry Hopkins whether it might not soon be possible for the United States Administration to make clear its own feelings in the matter, since it appeared that it did not agree with Mr. Hoover. Mr. Hopkins said that he entirely agreed with the British view. Lord Halifax was instructed to seek a public statement of the Administration's opposition to the Hoover schemes. On 6th February Mr. Hull told Lord Halifax that he thought the right tactics were to emphasize, as he had himself done to Mr. Hoover, the primary responsibility resting on the German Government. 'Let them restore some of the loot first and then perhaps we could talk about what it might be proper for others to do.' The President told Lord Halifax on the 8th that his views about feeding Europe had not changed; he did not, however, promise at this stage a public statement.

The position was a difficult one for the exiled governments of the small occupied states; Lord Halifax gained the impression from his contacts with the Belgian ambassador that the Belgians did not favour a breach of the blockade in order to feed their countrymen, but at the same time were unwilling to take open part in refuting the arguments of Hoover and his already numerous supporters. They suggested that the British Government should announce its readiness to consider a carefully-regulated scheme for allowing some essential foodstuffs

through; Germany would obviously not accept really binding conditions, and her responsibility would thus be made clearer. On 14th February, however, the ambassador was told that the Foreign Office doubted whether it would be either wise or of real advantage to state impossible conditions solely for the purpose of manœuvre. They preferred to wait for Mr. Hoover's next pronouncement, which was made in a speech broadcast from Chicago on 16th February. This set out a six-point programme, embodying a plan for bread and soup distribution in Belgium. It was to be conditional on Germany's agreement to requisition no more native food, and to the supervision of the whole scheme by some neutral body. In anticipation of an attempt on Mr. Hoover's part to deny that fats were used as the raw material of modern explosives, American journalists in London were given material on this point, and their statements had a good showing in the United States press at the same time as Mr. Hoover's speech, which did not receive particularly strong editorial backing. A 'reasoned reply' in somewhat general terms was prepared by the British Government, and this was released for publication on 10th March. On the 7th, Mr. Hoover, who had received an advance copy of the British statement, sent an urgent telegram to Lord Halifax urging postponement of publication, on the ground that a 'new situation' had arisen. He upbraided M. Theunis because of the limited support which Belgians had given to his campaign, and said that he would have to launch a campaign of criticism in reply to the British statement which would be echoed from 10,000 pulpits. On the 10th he did, in fact, issue an elaborate reply from the Office of the National Committee on Food.

In his conversation with M. Theunis, Mr. Hoover had admitted that it was impracticable to launch a scheme similar to that of the last war; he described the new scheme for shipping 20,000 tons a month for soup kitchens as a comparatively moderate one, and he regretted that this change in plan and attitude had not been better viewed in London. He was also able to say that the Germans had agreed to their part of the programme, and a few days later the Ministry received copies of two telegrams from Mr. Hoover's representatives in Berlin to New York, the first of which stated that the German Government had accepted the soup-kitchen proposal, and was prepared (1) to supply 80,000 tons of breadstuffs from their stocks, (2) to supply potatoes, (3) not to requisition imported food, and (4) not to withdraw 'foodstuffs of the same kind' for the use of the occupying forces. In addition the German Government agreed to the establishment of a 'single permanent neutral commission with its supervisory representatives constantly in Belgium'. Anticipating that this apparently accommodating reply might be used in America to challenge the British refusal, the Ministry sent to the embassy on 11th March a

series of arguments criticizing the German reply. The main points were: (1) the German guarantee would not prevent the withdrawal of home-produced foodstuffs or the feeding of German civilians in Belgium; (2) the soup-kitchens plan would leave double rations for the able-bodied who were working for the Germans: the Germans could reduce the rations of all but factory workers to the point where more and more of them would be thrown on the soup-kitchens; (3) the telegram from Berlin said that it was 'obvious' that Germany would not reduce her own fat rations (already reduced by forty per cent.) and her meat rations to feed Belgium: in fact, the offer of bread did not mean any real sacrifice by Germany, and Mr. Hoover did not seem to expect any; (4) it was impossible to give to Belgium without giving to all the other occupied territories, and Mr. Hoover could not contend that food relief for the whole of occupied Europe would be of no military advantage to the Germans. These arguments, although sound enough, did not expose the two weakest points in the German reply, namely, the fact that the proposed 'permanent neutral commission' did not give control to the Americans, and the fact that the Germans were only prepared to supply the 80,000 tons of breadstuffs 'initially' from their own stocks. It was not until the following October (1941) that the Ministry learned from a representative of the American Red Cross that in the previous February Mr. Hoover had tried, and failed, to get the Germans to meet these objections. Three conditions had been proposed to the Germans as a basis for the Hoover Belgian relief plan. These were: (1) an American commission would determine *where* the need for relief existed; (2) distribution would be under American supervision; (3) Germany would provide fifty per cent. of the foodstuffs used in the relief scheme. The Germans rejected these conditions. In March representatives of the American Friends' Service put a similar proposal to the Germans, but this was also rejected.

The virtual rejection by the Germans of even the modified Hoover scheme would, if it had become public, have supplied a convincing justification of the British assertion that it was impossible to trust this generation of Germans not to manipulate any relief schemes to their own advantage. The strength of the British position lay in the fact that even without any such specific evidence the American public and press had, in the main, accepted this conclusion; the personal unpopularity of Mr. Hoover was a further, but probably minor, factor in the comparative failure of his programme with the American public. Nevertheless, his success in masking the failure of his negotiations in February enabled his campaign to continue, and the British were also handicapped by their inability to make full use of the fact that the State Department and the American Red Cross accepted the British view in its essentials.

It seemed, indeed, during March 1941, that the Administration might, with the best intentions, deal a more effective blow at the British blockade than ever Mr. Hoover had succeeded in doing. The United States Government still adhered to the distinction between occupied and unoccupied territories, but Lord Halifax found during February that he and other members of the embassy were being repeatedly pressed by the President, Mr. Hull, and Mr. Welles on the question of food supplies to unoccupied France. It appeared that the French embassy had given the State Department a written statement of the Vichy Government's urgent requirements of wheat between the end of March, when the 1940 harvest would be exhausted, and the end of June, when the new harvest would begin to be available. Towards the end of February, Mr. Norman Davis spoke very strongly to Lord Halifax about the importance that he thought the question of unoccupied France was assuming, 'not only or mainly from the humanitarian angle, but rather from the political side'. Accordingly the Administration was willing for two ships, which were being loaded with wheat at New York, to be given navicerts to proceed to France. The United States Government probably felt some embarrassment in pressing this plan, for the President had said only a few weeks before, in connection with his proposal for relief for children, that his government had 'not the slightest intention of undertaking any policy which would weaken or militate against the efficacy of the British blockade', and the British Government had agreed to the sending of the two ships with supplies for children on the understanding that it would be the limit of the concessions demanded. Presumably for this reason the United States Government did not put forward official proposals, but the French demand was strongly supported in conversations with members of the British embassy. On 28th February, Mr. Atherton told Mr. Butler that if the British Government took 'the 100 per cent. hard-boiled line', he feared that the United States Government 'would feel bound to drop out of the picture'; in that case Darlan would be convinced that he would not present the pinched people in the unoccupied territory with any solid fruits of the collaboration with the United States, and through the United States with the British. He also said that he was personally convinced that there was now the opportunity for valuable Anglo-American co-operation, 'but if it was not taken he doubted whether it could recur'.

Up to this point the Foreign Office and the Ministry had maintained their opposition to any relaxation; as late as 3rd March Lord Halifax was instructed to 'reason patiently' with the United States Government. A strong case was stated to the ambassador; effective control of the Vichy Government had now passed into the hands of the anglophobe and ambitious Darlan, the indications were that

economic collaboration with Germany was under active discussion, the Armistice Commission was apparently consulted on every detail of Vichy's foreign relations, and although the commission had already gone beyond the terms of the armistice in many ways, the only protest so far known to have been raised was with regard to Alsace and Lorraine. The supply of foodstuffs would damage the blockade in various ways. Factories in unoccupied France were working more and more for the Germans; any supplies sent from overseas would help to relieve Germany of the burden of feeding those so employed. Wheat was not a German deficiency; the problem of feeding German Europe was primarily one of transport, and as the Germans had removed large quantities of rolling-stock from the occupied territories and had allowed no petrol for civilian transport, any supplies from overseas would directly relieve the strain on the German war machine. For this reason also the shipments of wheat to Marseilles would almost certainly not solve the problem of feeding unoccupied France; it would almost certainly be followed by requests to allow the import of lorries, tyres, and petrol, which could not possibly be granted. The Germans were preventing the export of wheat to unoccupied France, no doubt in order to build up reserves of wheat in Germany against the possibility of shortage later. Vichy would have to ask the Germans for permission to admit wheat from outside, and the Germans would probably insist on some *quid pro quo* in return. These arguments were sent to Washington in a telegram which crossed with two from the ambassador in which he explained the strong pressure being put by the United States Government, and concluded that it would be wise, for the sake of British policy viewed as a whole, to allow the Americans to go forward with the carefully limited and controlled plans which they were convinced were practical for unoccupied France. He suggested, however, that this concession might be considered together with the general question of imports into Vichy France.

This procedure would link the supplying of continental France with that of the French colonies which had not broken with Vichy. It was estimated also that from 1st October 1940 to 1st March 1941 ships carrying some 1,750,000 tons of cargo had unloaded at Marseilles; most of this had come from French North Africa, but some 750,000 tons had passed through the Straits of Gibraltar, including enough groundnuts to provide Germany and Austria with their margarine ration for six months. Abundant evidence continued to come in showing that a substantial part of all imports into unoccupied France was removed to Germany. The cabinet decided on 4th March that if the United States Government insisted, it would be necessary to grant navicerts for the two wheat ships, but there should be no further concession without some action by Vichy of benefit to Britain. On the 13th the cabinet reaffirmed this decision; a threat by Darlan on the

10th to convoy supplies across the Atlantic strengthened the conviction that there must be no suggestion that the blockade was being abandoned. Lord Halifax's suggestion was, however, followed up, and it was proposed that the United States Government should make a 'dramatic offer' to Vichy that the British would give navicerts for five to eight million bushels of wheat for unoccupied France, and a reasonable ration for French North Africa, on condition that Marshal Pétain would prevent further infiltration into French North Africa, and that an adequate number of American and British observers were sent there. Failing other British observers, British consuls should be readmitted. It was also indicated that the British Government would like French naval units in French metropolitan ports to be sent gradually to French North Africa and to stay there. However, the United States Government did not find this plan practicable. It preferred to separate the two questions of supplies to unoccupied France and supplies to North Africa, to deal with the latter first, and to allow supplies in the meantime to pass only in dribbles. This was satisfactory enough as far as it went, for it seemed to exclude the danger of any precipitate action in Washington. By the end of March it was also becoming evident that public opinion in the States was likely to have a decidedly deterrent effect on such action.

On 28th February, Mr. Atherton had given it as his personal opinion that American sentiment was about equally divided between, on the one hand, humanitarians and those who thought that on grounds of expediency it would not be wise to allow the starvation of the unoccupied territories, and, on the other hand, those who would support the British in the 'hard-boiled policy' of no relaxation. Although this estimate may have been roughly correct, it did not take account of the fact that the American press and American opinion were becoming increasingly 'economic-warfare minded' and that any evidence of concessions to Vichy was likely to advertise, and therefore to strengthen, the case for unlimited blockade. The latter was strongly supported by American correspondents in London, whose reports were an important factor in strengthening the American demand for a strong blockade policy. Throughout March the question of French relief was discussed prominently in the British, Continental, and American presses, particularly in connection with Darlan's attacks on the blockade. On 10th March, in the presence of Marshal Pétain, he told American correspondents that 'Germans are more generous and more understanding of the needs of humanity than the English', because they had released two million quintals of wheat out of 2,700,000 quintals which had been requisitioned for the German Army. He added the threat, to which we have already referred, that 'if the British continue this blockade, which I consider imbecile, I shall be obliged to ask permission to provide arms and protection for our

merchantmen. I will let nothing stand in the way of the feeding of the French people.' He added that he had told Admiral Leahy that he considered the blockade of Germany useless, and that a few boatloads of wheat would not affect the outcome of the war.

As a prelude to this outburst there had been a protest by M. Henry-Haye, the French ambassador in Washington, against the refusal of the British to approve the shipment in the *Exmouth* of oatmeal farine to unoccupied France. The British Government had agreed in January to the President's proposal that a single shipment of medical supplies, milk, vitamin concentrates, and clothing should be sent for children, and that if the despatch of this ship were attended by satisfactory results, other individual shipments could be sent subsequently. On 2nd March the Ministry heard from the American embassy that a second ship was on the point of sailing, with oatmeal and farine in addition to the agreed items; the British had not been consulted about this, and the first ship had not even arrived. The consequent refusal of the British to approve this shipment came to the knowledge of the French ambassador through the American Red Cross; he was evidently determined to do all he could to influence American opinion against the blockade, and his statement was seized on with considerable avidity by the press. But American comment was, on the whole, favourable throughout the month to the British point of view. During the next fortnight there were repeated press rumours of negotiations for the relaxation of the blockade; the British press showed itself very anxious to take up Darlan's challenge as firmly as possible, and this tendency was even more noticeable among American correspondents in London. Mr. Sumner Welles's announcement on 22nd March that British permission had been given for two vessels carrying flour to unoccupied France to pass the blockade had a worse press in the United States than in Great Britain.

How far the United States Government's plans might have been pushed if Darlan and the Germans had handled the situation differently is not clear. But on 26th March the announcement of a comprehensive barter deal gave an undoubted shock to wavering opinion in Britain and the States. Under this the Germans were to send 800,000 tons of wheat and other supplies to unoccupied France in return for 190,000 head of cattle, 600,000 head of small livestock, 600,000 calves and hogs, 36,000 tons of table oil, and so on. On 27th March Darlan announced that 'communications with French North Africa, Dakar, the French West African coast, Indo-China, and the Antilles were re-established at the normal pre-war rate'. On 31st March the Ministry published particulars of the tonnage of goods carried to Germany by railways in unoccupied France. It may well be that the issue of navicerts for the two ships had led the Germans to give publicity to the secret barter deal in order to prevent any credit for feeding France

from accruing to the democracies. If so, the publication had an effect favourable to British policy on both official and unofficial American opinion.

The evidence of Vichy's economic collaboration made it possible for the British Government to argue that in the circumstances there appeared no further case for sending food supplies from America. The Prime Minister sent a personal telegram on these lines to the President on 29th March; he said that he was instructing the Admiralty to tighten up the blockade of unoccupied France as far as British naval resources allowed, and he hoped that the President would not 'think this is unwise or unreasonable'. The two gift ships would, of course, be let through. The United States Government agreed with this view, and the State Department showed some anxiety early in April to clear itself of the charge that it had brought pressure on the British to issue navicerts for the two shipments. The two ships, however, were allowed to sail, and reached Marseilles on 5th May. At the end of April the question was again raised by the United States Government, which had been asked by the French to send a further two shiploads of wheat to unoccupied France, subject to a satisfactory report being received on the distribution of the first two shiploads by the American Red Cross. These ships were to be accompanied by special American controllers. Further ships might be sent, two at a time, on the receipt in each case of a satisfactory report on the distribution of the previous shipment. The United States Government had replied that it was prepared to provide the wheat, and it very much hoped that Britain would concur. In the circumstances only one answer seemed possible, and the British Government agreed to the shipments, while asking that they should be postponed as long as possible. On the whole it seemed that this was a small price to pay for American assistance in enforcing the blockade in other directions.

The British Government had also decided that it must accept American plans for provisioning French North Africa, although it would endeavour, in the course of the detailed discussions of individual commodities, to keep the State Department in line with what it regarded as the safe limits of concession. For the purpose of these discussions Mr. Eccles accompanied Mr. Noel Hall to Washington, and detailed negotiations followed in April. The path of these negotiations will be followed in the second volume of this work; they remained a source of difficulty until after the landing of Anglo-American forces in North Africa in December 1942.

There seems little doubt that this was due in large measure to some lack of clear direction on the American side as to what the objective of United States policy was—the result in part of certain anomalies of administration inside the State Department. The British Government's goal was clearer. It was willing to try to sustain civil life, and

particularly native life, by sending in the necessary imports. It was unwilling to sustain the basic productivity of the area as a source of German supply, and in particular it was unwilling to send supplies that might expose the local administration to German pressure, either to hand over a part of these supplies direct or to use them to transport or produce goods particularly valuable to the Germans. The British plans were based on a detailed study of the economy of French Africa and of German needs, and it did not appear that the Americans, at any rate in the earlier stages, were sustained by a like study. But in the last resort the two governments, each struggling with the utmost goodwill towards the same goal, were dealing with a psychological rather than an economic problem. It was the British conviction that the sincerity of the intentions of the French should be kept under test by their being required to export, in return for supplies, at least some small quantity of goods likely to be of use to the enemy: on the American side there continued to be serious differences of opinion as to the extent to which these and similar safeguards could profitably be applied.

During the winter the case for the sending of relief through the blockade for the subjugated populations of Norway, Belgium, and Holland had also been pressed; in each case the exile government, while admitting the need for the general maintenance of the blockade, felt bound to press for special and limited relaxations, often arguing that the propaganda success of any help would compensate for whatever trifling economic gain the Germans might secure. M. Koht, the Norwegian Minister for Foreign Affairs, drew Lord Halifax's attention on 24th September 1940 to a problem of special urgency: some 30,000 or 40,000 Norwegian sailors were working for Great Britain, and were distressed by their inability to send food or money to their families. By the spring of 1941 there was said to be a growing danger that the Norwegian seamen would refuse to continue to risk their lives in carrying foodstuffs and supplies to England unless something was sent to their families, and it was even hinted that they might take food ships to Norway. This particular problem was met later by arrangements for them to send Red Cross parcels.

But in general the British Government had to maintain the position laid down by the Prime Minister on 24th August 1940. The one modification was a promise that objection would not be raised to the movement of supplies for relief purposes within the blockade area, although even here the danger of German advantage existed. The point arose in connection with plans to send grain into Norway. Consent was given in April 1941 to a proposal for the supplying of 10,000 tons of Russian grain for Norwegian relief, to be paid for in dollars collected by the Norwegian Relief Committee in the United States. For reasons which are not quite clear the committee felt itself

unable to proceed with this plan, and in the meantime news reached London of a secret trade agreement of 5th April 1941 between Sweden and the German authorities in Norway whereby Sweden undertook to send 10,000 tons of grain in return for fish, molybdenum, aluminium, etc. This was a case of movement within the blockade area, for Sweden at the time was not importing grain through the Allied contraband control.

On 4th April 1941 the Ministry informed the United States embassy in London that it was prepared to agree to the general principle of supplies of food from inside the blockade to occupied countries and to the release of dollars for the purpose, subject to certain conditions, namely:

1. that adequate safeguards can be provided against financial benefit to the enemy. This would mean, among other things, that purchases should not be made in enemy-occupied or enemy-controlled territory, and that payments should be made direct to the neutral supplier, no enemy intermediaries being employed, otherwise the dollars would probably reach Germany;
2. that the goods bought should be the local produce of the country in which they are purchased, and further, that they should not be goods of a kind of which that country imports a part of its requirements from overseas; for instance, we could not approve the purchase of fats in Sweden for Norwegian relief as long as Sweden is importing oilseeds through the blockade.

It was also hoped that the United States Treasury would feel able to consult the Ministry before releasing any important sums.

With this exception the British Government was able to get through this difficult phase of the war without sabotaging the blockade in the name of relief; the problem remained, but it was soon to take a different form.

CHAPTER XVII

CIRCUMVALLATED NEUTRAL: SWITZERLAND

By July 1940 Switzerland—alone among the European neutrals—had lost all direct sea or land contact with any part of the neutral or Allied world (although there was, in practice, little difference in the vulnerability of all the smaller remaining adjacent neutrals—Spain, Sweden, Finland, Greece, Yugoslavia, and Switzerland). Germany could have occupied the greater part of Swiss territory with ease, and partly, no doubt, for that very reason, did not do so; but she naturally used her commanding position and the threat of invasion to obtain greater deliveries of essential goods, and the Swiss were prepared to go a long way in meeting her demands. Nevertheless, several circumstances encouraged the Swiss to strive to maintain something more than a nominal neutrality. They had a long and successful record of ‘permanent’ neutrality. They had the ability, and claimed to have the determination, to put up some resistance to invasion, and although this would necessitate withdrawal to the mountains, and the giving up of the great manufacturing industries around Basle and Zürich, and in the Jura, it could be made expensive for Germany. The Swiss precision industries were of importance to Germany, and Swiss financial institutions were a valuable link for Germany with overseas countries. Swiss control over the Simplon and Gothard tunnels was of less political importance than formerly, owing to the French breakdown in 1940 and the German control, after the spring of 1941, of the Balkans, but here, as elsewhere, sabotage in the event of invasion would at any rate reduce the attractiveness of possession. Then, too, Switzerland was anxious to cling to her old channels of overseas trade, for the loss of valuable connections might hamper the resuscitation of her export trade after the war, and in the more immediate future she was dependent for her supplies of food-stuffs and raw materials from overseas on the British rationing arrangements.

During the first weeks after the fall of France, the Ministry had to ask whether Switzerland had passed finally out of any form of Allied control. Traffic with France had ceased, the Swiss-French war-trade agreement was cancelled, the Swiss arranged for all payments due to France to be paid into a blocked account, and by 12th July 1940, when the Mixed Commission held its ninth meeting, the French

Government was no longer represented. Was it then possible, or worth while trying, to maintain relations with Switzerland at all? Was it possible to secure the transport to Britain of urgently-needed material such as precision instruments, or armaments for which the Admiralty had already lodged large orders with such firms as the Oerlikon works? Was it possible to make Switzerland reduce the large stocks which she was thought to have hoarded and which might pass into German hands? These stocks represented the successful efforts of a special war-time organization which, having regard to the experiences of the First World War, had set to work in the winter of 1939-40 to build up reserves. The results varied with different commodities; in some cases stocks amounted to as much as twelve months' requirements, and in others, such as petrol, they were small owing to scarcity of storage facilities. The building up of these stocks had been hampered, particularly since the spring, by congestion at the French Channel ports and at Genoa. As a result the Swiss suffered considerable losses when the French ports were occupied by the Germans. In the case of Genoa, however, the British legation was able, as a result of instructions received just before Italy's entry into the war, to secure the immediate release of the goods, so that very little fell into enemy hands.

As it happened, the Swiss themselves showed their anxiety to maintain contact through the Anglo-Swiss agreement. On 5th July, Mr. Kelly, the British minister in Berne, was told that the Ministry agreed with the President's view¹ that the agreement could no longer be regarded as corresponding with reality, but wished to maintain it as a basis for contact. In effect each government was given virtual freedom from its obligations and the British representative was allowed 'complete discretion to consent to derogations from particular obligations imposed on Switzerland'. The President was obviously pleased with this 'realist' attitude, and remarked that Switzerland would, and must, resist any German demand for an embargo on exports to the United Kingdom.

Britain's main weapon was her control of shipping. In pre-war years a tonnage of about 300,000 had been required for the carriage of food and raw materials to Switzerland from America. At the outbreak of war Switzerland had chartered fifteen Greek vessels with a total tonnage of about 100,000, which covered about a third of her normal annual requirements. It was estimated that the balance of vital imports would be taken by foreign lines. This arrangement worked satisfactorily enough until the fall of France, but then trouble began. The Swiss could not use French ports (Marseilles was closed by the armistice agreement of 24th June) and it became much more difficult to charter neutral shipping; the Italians agreed to allow the

¹ See pp. 236-7 above.

Swiss to use their ports and to permit transit, but both the Germans and the British, for their own obvious reasons, looked with suspicion on the traffic, and insisted on many restrictions. Switzerland was not, like Vichy France, in a position to employ her own ships in blockade-running and in convoy. The British, therefore, took prompt and effective measures to control supplies; twenty-one vessels with cargoes for Switzerland were held up at Gibraltar after the fall of France, and for the next two months, while the Ministry waited to see how Switzerland would behave, ships were released very sparingly.

Two only of the twenty-one ships had been released by 10th July—the *Stavros*, with 8,000 tons of coal from the United States, and the *Aenos*, with a cargo of 3,100 tons of groundnuts. A telegram to Berne on 16th July said that the Ministry was for the moment prepared to allow shipments of coal—which was not a German deficiency—provided that Switzerland made genuine efforts to deliver goods ordered from her. The sincerity of the Swiss was not doubted, but imported goods might be seized en route, the enemy might benefit from the payments for freights, and Switzerland must not accumulate stocks which would 'only further excite the cupidity of our enemies and increase their demands'. The Ministry also sent a warning that arrangements would have to be made for full inspection of cargoes at the ports of unloading so as to stop the export of goods of enemy origin.

The Swiss continued to press for the release of more ships carrying coal and cereals, and the Ministry, while sending assurances that there was no intention of cutting Switzerland off completely from contact with the outside world, said that Switzerland would have to get its oil from Rumania. On 25th July permission was given to release the *Faneromeni* with a cargo of 5,850 tons of maize. On 2nd August the Ministry refused to release two ships carrying 16,000 tons of scrap rails, for recently Switzerland had agreed to the export of over 18,000 tons per annum of scrap metal to Germany. However, on the same day, in view of the fact that certain exports were reaching Britain, the Ministry agreed to release the *Rokos* carrying cereals, and the *Mount Taurus* and *Mount Lycabettus* carrying 6,383 and 8,878 tons of coal respectively, the former being taken as a test case. On 23rd August it was reported that these cargoes, as well as those of the *Rokos* and of the *Faneromeni*, had reached Switzerland safely.

In the meantime, while Britain had been demonstrating the reality of her powers of control, Germany had been doing all she could to draw Switzerland into her own economic sphere. Until the French collapse, Germany had been content to adapt herself to the changing economic situation by minor alterations to the German-Swiss Transfer and Payments Agreement which expired on 30th June 1940. Now she was able to secure more favourable terms. A German delegation arrived in Berne towards the end of June; the export of coal to

Switzerland was stopped as a means of pressure; on 17th July the German delegation returned to Berlin, followed on the 22nd by a Swiss delegation, and a new Transfer and Payments Agreement was signed on 9th August. This introduced no major modification of the arrangements for payments of mortgages, tourist traffic, and other incidental trade charges, but altered the proportion of Swiss imports as against Swiss exports to Germany—about seventy-five per cent. of the total sum being set aside for the payment of Swiss exports. Germany undertook to deliver coal to the same extent as in 1939, a favourable year. The Swiss, on their side, agreed to supplement agricultural and industrial exports, and, in order to prevent delays in deliveries to Germany, to make advances to Swiss exporters through the clearing.¹

Germany also took advantage of these negotiations to introduce counter-blockade measures against Great Britain. For some time it had, indeed, been possible for Swiss goods to be exported over a railway route through unoccupied France which the Germans had apparently overlooked. Goods for the United States and United Kingdom were freely consigned by this route via Spain to Portugal. Various transit arrangements introduced during August put a stop to this. On 29th August the Germans issued an ordinance (effective from 1st September), stating that certain commodities named in the German tariff had to have transit permits (*Geleitscheine*) issued by the German legation in Berne for transit in Germany; similar instructions were issued to the Italian Customs. The French Government had already agreed that transit via France, including unoccupied territory, should be subject to licence, and to German export control. The effect of these various regulations was to give the German legation in Berne a rigid control over Swiss exports to all destinations. A comprehensive list was drawn up defining war materials; such goods could not be exported at all. A further list comprised goods which required the *Geleitschein*; all goods and raw materials of war potential fell within this list. Finally, there was provision whereby the residue of Swiss exports, not covered by any of the lists, could be exported only in 'normal quantities' based on the years 1937 and 1938. Transit permits, as a result, were now necessary for about sixty per cent. of Swiss exports to Great Britain.

¹ Exports of weapons and ammunition to France and Britain ceased, and there was a corresponding increase in supplies to Germany and Italy. These have been estimated at, in round figures, 40 million francs to France, and two million to Great Britain, in 1939; 26 million (France), 21 million (Great Britain), 33 million (Germany), and 34 million (Italy), in 1940; 122 million (Germany), 61 million (Italy), and none to Allied countries in 1941. The total to all destinations was 63,892,423 francs (1939), 152,331,260 (1940), 205,560,511 (1941). (See J. Ragoz, 'Die Ausfuhr von Kriegsmaterial aus der Schweiz während des Zweiten Weltkrieges', *Der Aufbau*, Zürich, 8th April 1949, p. 118.) The conversion rate for 1939 may be reckoned at 20.50 Swiss francs to £1, and for subsequent years a mean of 17.50 : £1.

German control was strengthened by other measures. By September much of the Swiss letter post was routed through Germany via Stuttgart. Germany also interested herself in the trading and financial arrangements of occupied and satellite states with Switzerland. Between 28th August and 20th September a series of negotiations took place at Berne which resulted in new arrangements affecting traffic and payments to Bohemia, Moravia, Norway, Holland, and Belgium. This led to some modifications in the Swiss-German customs tariff which did not, however, touch the list of prohibited exports under the Anglo-Swiss war-trade agreement. Trading and financial relations with Poland were regulated by a provisional agreement arranging for transactions to be carried out on a compensation basis. From 1st January 1941 trade with territories incorporated in the Reich was to be settled through the German-Swiss clearing agreement, a special account being created for the former Polish territory. The German-Swiss agreement of 9th August came into force retrospectively from 1st August 1940 and was to be valid until 30th June 1941. It may be noted here that during September Germany was circularizing Swiss firms and asking their opinion regarding necessary reforms of the customs barrier when the war was won.

All this—and the essential position was known in London before the end of August—forced the British Government to ask whether Switzerland had not been irretrievably engulfed in the Axis flood. The Ministry went so far as to propose that the blockade should now be extended to Switzerland, and there followed one of those clashes of opinion with the Foreign Office which were rather frequent at this period. The Ministry's views were marshalled and expounded at an interdepartmental meeting at the Foreign Office on 26th August. It was argued that goods for Switzerland had to cross enemy territory or unoccupied France and were in constant danger in both cases of diversion by the enemy; unoccupied France was now subject to the blockade, and it would be difficult to justify more favourable treatment for Switzerland 'since geographically her position is the same'; it seemed that the new Franco-German agreement for the control of Swiss transit traffic would make it unlikely that Britain would receive the *quid pro quo* in the shape of Swiss war material; since Germany and Italy could take control of Swiss assets at any time, imports would merely build up greater booty to tempt the enemy; Switzerland, anyway, had ample reserves of essential imported foodstuffs so that a blockade should not cause undue hardship.

These arguments, impressive enough in their way, did not carry the day, and in the Ministry itself there was considerable support for the view that as long as the Swiss Government struggled to preserve some degree of independence, Britain should offer the encouragement of carefully regulated imports. The meeting agreed that the question

of blockading Switzerland would ultimately have to be decided on political grounds; and that there were at least three major advantages that might be secured if the risk of continuing imports were taken. There was still some chance that much-needed goods of small bulk, such as precision instruments, watches, fuse mechanisms, could be got out of Switzerland; their export depended on the goodwill of the Swiss authorities, which might be lost if the blockade were enforced. Furthermore, Switzerland served as a clearing house for prisoners of war, and it would also be an inconvenience not to have Switzerland in charge of German interests. Finally, information about Germany obtained through the British legation in Berne was of very great importance for war purposes. These arguments were put to Mr. Kelly, who endorsed them very emphatically on 4th September.

So the principle of maintaining economic contacts with Switzerland was accepted for the time being, and it was agreed that it was a little unfair to the Swiss to class them with Vichy: 'a discredited clique', said Mr. Kelly, 'divided amongst themselves, deriving their title from national pusillanimity', whereas Switzerland was 'the oldest and most solidly established democracy in the world', although he admitted that the Federal Councils 'were more timid than the rest of the population'. The decision of the Swiss Government at this point to send an economic expert, Professor Keller, to London, was opportune, and negotiations with him continued until December. A further 'political' reason for concessions was put to the Ministry by the Foreign Office on 14th September. The Swiss Government was protesting strongly against R.A.F. flights to Italy over Swiss territory; it was thought that the release of some ships on or before Professor Keller's arrival would 'greatly help the position'.

What little enthusiasm the Ministry had for bargaining was diminished by news, on 21st September, that the Swiss had suspended the issue of export licences for goods consigned to the United Kingdom, other than those on the 'free list'. On the 24th it was known that there had been a similar refusal to grant licences for the export of jewels to the United States. On 3rd October the President explained to Mr. Kelly that this had been due to unofficial information that the French Government was about to refuse permission for the transit of goods unless the necessary German licences were available. There was some irritation that the Swiss Government had been in such a hurry to anticipate the French action. But the discussions with Professor Keller continued; the amounts of existing Swiss stocks of the more important commodities were agreed, and on 15th October a letter from Mr. Dalton to the professor set out the Ministry's terms.

In the case of lubricating oil, wheat, rye, vegetable oils, sugar, coffee, rice, cotton, wool, lead, zinc, tin, and mercury, Switzerland had considerable supplies, and the British Government could not

facilitate further imports until stocks in each case had dropped to a two months' level. But this principle would not be applied with undue severity, and the Swiss could ask for navicerts and export licences before this level was reached. The Ministry was also satisfied that there was some shortage of supplies of coke, paraffin, benzine, diesel oil, and maize, and to a lesser extent of barley and oats. The British Government was prepared to facilitate the import of coke and coal, although Switzerland already had a six months' stock of coal. It was hoped that Switzerland would purchase a reasonable proportion of these commodities in Britain. In the case of benzine, paraffin, and diesel oil, which were German deficiencies, the matter would have to be considered further before stocks were allowed through. There was some uncertainty as to Switzerland's real need for maize, but three ships with this cargo were to be allowed a passage. There were similar doubts as to the need for barley and oats, but two consignments would be released. Furthermore, navicerts and export licences would be granted for goods not likely to benefit the enemy: a list of these was in preparation. In the meantime navicerts were to be authorized for certain consignments from the United States. Four coal ships were to be allowed to proceed two by two, as well as two more ships carrying scrap rails needed for defence purposes. The letter continued that navicerts and export licences, within the agreed quota, would generally be granted without requiring any guarantees from individual consignees, although the right to examine from the consignee angle all applications for navicerts and export licences was retained. The general policy was to be subject to revision, and the Swiss were asked to elucidate the position with regard to their exports. Finally, the Ministry agreed to reconsider the position of eight ships with cargoes of wheat which had not been allowed to proceed owing to the existing large Swiss stocks.

On this basis Anglo-Swiss relations continued throughout the winter. There was detailed discussion of a rationing list, and by June 1941 it had become possible to determine quotas for practically all normal Swiss imports. Considerable pains were taken to honour the undertaking that the navicert machinery would work smoothly for goods within the agreed quotas. Corresponding care was taken to prevent imports being used for the benefit of the German war machine. Ferro-alloy materials and special alloy steels, rare metals and rare earths, certain non-metal minerals, raw materials for explosives, and leather and tanning materials were prohibited altogether. As a reply to the German ban on exports to the United Kingdom measures were taken to retard deliveries of Swiss exports to Japan. The War Trade Lists were considerably extended; at the end of May 1941 there were 345 firms on the German lists and forty-eight on the Italian lists; the number of suspected firms was 102 and five respec-

tively. Difficulties arose in this connection over the use of Swiss transport firms. At first the Statutory List for Switzerland was confined to purely German concerns operating in Switzerland; later some Swiss transport agents were refused facilities and the Germans retaliated by refusing to give facilities to Swiss transport firms known to be friendly to the United Kingdom. This problem had not been solved by the end of this period; what seemed to be foreshadowed was the eventual employment of one class of agents for imports and another for exports, a possibility which was causing much alarm in Swiss official circles.

In short, then, after the rather bold decision in September 1940 to allow supplies through in spite of Switzerland's isolation inside the blockade area, the normal machinery of forcible rationing and compulsory navicerting was applied, and the main problem of contraband control was, as in Spain, to encourage resistance to German pressure while at the same time reducing the German temptation to attack. In the case of Switzerland the government was timid rather than sulky, and it was believed in London that the continuance of the war-trade agreement had encouraged resistance, and that the blockade was, in reality, the best defensive weapon left to the Swiss.

Certainly most of their other defensive weapons had gone. The transit problem became increasingly serious. The outbreak of war between Greece and Italy on 28th October 1940 made it impossible for Greek ships under time charter to Switzerland to enter the Mediterranean, and seriously limited cargo space. In any case the fifteen Greek ships were due to be surrendered for Allied use in December 1940. The Swiss were told by the British authorities that if all fifteen were discharged by 31st January 1941 the last three could be retained for Swiss use. After an appeal from the Swiss it was decided to offer five more ships for one further voyage and three for two further voyages, on condition that the Swiss would agree to the establishment of an air service between London and Berne. In November 1940 the Spanish Government prohibited transit across Spain of certain goods. The rationing problem seemed for a time to be not a question of how much would be allowed but of how much could be got through. The transport crisis continued during the first half of 1941. Switzerland had constant difficulties in obtaining shipping space and the right to use the necessary ports. Genoa and Marseilles were uncertain; attempts were made to obtain the use of Spanish ports but rail transit across the Iberian Peninsula and France continued to be slow and uncertain, owing to government restrictions and the lack of rolling stock. Goods silted up in the ports. A partial improvement came in March 1941, when the British defined the Portuguese exports to Switzerland which might be allowed through; at the same time the Swiss reached an agreement with Spain about transit and British co-operation was sought. On 14th May the Ministry agreed to the

Swiss plans for the use of Barcelona. Almost at once, however, the Swiss asked for permission to use the ports of Vigo and Bilbao, for they had discovered that at the moment Spanish, Portuguese, and American vessels which did not discharge at Lisbon or Leixões were using only Spanish ports on the Atlantic.

It is not altogether surprising that at the end of March 1941 the Federal Councillor for Foreign Affairs complained to Mr. Kelly that 'the Swiss, who were ready to defend their independence in the mountains, might be subjected instead to economic strangulation and this sooner than he had anticipated'. Stocks of essential commodities, such as fodder for beasts, and petrol, were falling below the two-month limit as a result of the time-lag between the granting of navicerts and actual transport. If matters continued to deteriorate the Swiss would, he feared, be compelled to appeal to the Germans for supplies as they had already been compelled to buy Russian cotton. 'The worst feature was the loss of all independent bargaining power with the Germans who had been taunting the Swiss on the impossibility of relying on British help and boast that they are waiting for the inevitable result.' The Ministry, however, was convinced that this type of complaint was not justified, and that the real trouble was Switzerland's shortage of shipping, which made it a physical impossibility for the country to import all the goods that the Ministry was prepared to navicert. In any case the Ministry had never promised any petrol supplies. A total of some 219,000 tons of goods had received navicert and other authorizations in the first quarter of 1941;¹ 100,000 tons of wheat were authorized in April, and with this addition it was likely that the tonnage authorized for the second quarter would be even greater than that for the first. But from 24th December 1940 to 31st March 1941, twenty-two vessels had sailed from various ports to Genoa with Swiss cargo, having a total carrying capacity of only about 73,000 tons. Of this amount the carrying capacity of the Yugoslav vessels employed was about 28,000 tons, which would not be available in future. Mr. Kelly was, therefore, asked at the end of April to suggest by 'discreet dissemination' in Switzerland that the blockade could not be blamed for the general shortage of supplies, even if there were legitimate grievances over specific items.

It seemed, nevertheless, that the Swiss were still doing what they could to maintain some control over their own destiny. The Ministry made an estimate of certain Swiss exports to Germany, Czechoslovakia, and Poland between September 1940 and the end of February 1941, and it was decided that in the case of the commodities

¹ The main item was 160,000 tons of foodstuffs and fodder. Only 17,780 tons of coal were included. Normal Swiss imports of coal from overseas were about 300,000 tons a year. The Ministry would have authorized more if shipping had been available.

reviewed the Swiss had adhered to the terms of the war-trade agreement. In cases where there had been a considerable increase in export the commodities were generally 'free' according to the terms of the agreement, although cattle and iron ore were exceptions. As the direct export of all essential commodities to the United Kingdom, and to a large extent to the United States and France, had ceased, many Swiss works which had formerly produced entirely for France or the United Kingdom were faced with the alternative of closing down or accepting German orders, and, often under the direct influence of the Swiss authorities, chose the latter course, especially as Germany frequently undertook to supply materials. By the spring and summer of 1941 it was clear that German pressure on Swiss industries was increasing. The Ministry could glean only general information at this stage; it was known that German-Swiss trade negotiations were opened towards the end of April, although without any apparent results, and that another Swiss mission left for Berlin on 25th May. For the time being the Ministry could do little but watch and wait.

CHAPTER XVIII

THE BALKANS, TURKEY, AND MIDDLE EAST

ECONOMIC-WARFARE developments in the Balkan Peninsula during this second phase of the war differed markedly from those in other parts of Europe, for this was the sole area in which military operations took place. None of the existing European neutrals was, of course, safe from German attack, and the Ministry had always to be prepared to change its rationing policy at short notice when an adjacent neutral became an ally, an enemy, a pre-belligerent or post-belligerent, or whatever the case might be. But it was only in the Balkans that such rapid adjustments had to be made in this period. Turkey remained an ally, but the Turkish ship of state rocked noticeably in the Balkan and Mediterranean storms.

(i)

The Balkan Peninsula

On the entry of Italy into the war the export of all goods to Mediterranean countries was made subject to export licence in the United Kingdom and Commonwealth countries, outstanding export licences were revoked, and the issue of further export licences was suspended. Similar action was taken with regard to navicerts for these countries. An exception was at once made in the case of Turkey, for whom export licences and navicerts continued to be issued, provided that goods were routed round the Cape.

The Ministry had, in fact, little hope of success in Hungary, Rumania, and Bulgaria, although in the two latter countries there still seemed a more or less remote chance that some pre-emptive purchasing could be continued, in which case the Ministry was prepared to arrange for comparatively innocuous cargoes to reach them. All three were, however, considered to be too exposed to German influence for it to be wise or worth while to facilitate the regular passage of supplies. Yugoslavia and Greece were in rather a different position, since there was still hope that Britain could secure valuable minerals from them (in particular chrome and magnesite from Greece, and chrome and lead from Yugoslavia) and that they would

try to resist Axis pressure. In return Britain was ready to help them in obtaining supplies, although it was intended to limit carefully the import of all raw materials of any value. By the following May 1941 all was over. Hungary and Bulgaria, rewarded by the revision of their frontiers at Rumania's expense in August 1940, became German satellites by the end of the year; Hungary adhered to the Tripartite Pact on 19th November and allowed German troops to pass through her territories, and Bulgaria came under German economic control from October, although she did not sign the pact until March 1941. Rumania was completely under German domination; she signed the pact in November 1940, although the British minister did not leave the country until February 1941. Greece was invaded by the Italians in October 1940 and by the Germans in April 1941; Yugoslavia made a trade agreement with Germany in October 1940 and her government adhered to the pact on 25th March 1941, but this was reversed by the *coup d'état* of 27th March, and the German armies attacked a few days later (6th April).

In the autumn of 1940 the chief purpose of the Ministry's policy in South-Eastern Europe was to strengthen the position of the U.K.C.C. Owing to the shipping difficulties and the small volume of imports the corporation enjoyed a virtual monopoly, and one of the Ministry's aims was to secure the acceptance of the corporation by the Commonwealth and Allied Governments as the sole agent for the delivery to the Balkans of key imports. At the same time care was taken to ensure that American countries should share any trade that became possible in these goods. By the end of August 1940 the corporation had a say in the composition of all cargoes going to these countries. Proposals were put to the Greek and Turkish Governments for a large scheme of purchases and supplies, and in the meantime the corporation pressed on with the accumulation of stocks at a safe distance from Axis control. In August a large shipload of jute, sufficient to meet Balkan requirements for a considerable time, arrived, after many vicissitudes, at Istanbul; portions of seized cargoes of raw materials were purchased in Egypt, and further supplies were on their way there. These would make it possible to arrange a regular distribution of raw materials, and the Ministry would be in a strong bargaining position if the Balkan countries were still able to trade with the United Kingdom in a satisfactory manner.

No such trade was, however, possible with Hungary, and in Rumania the Ministry was limited to efforts to salvage as much as possible from the wreck of its earlier plans. The hostile attitude of the Rumanian Government was shown in its treatment of the oil companies, and in its action in holding up British and French-owned barges on the Danube. As a measure of retaliation three Rumanian ships—the tankers *Oltenia* and *Steaua Romana*, and the *Bucegi*—were

held up in Egypt during August, and British ambulances on the *Bucegi* were unloaded at Haifa and requisitioned by the British authorities. By October 1940 the Ministry was satisfied that there was no prospect of any further economic-warfare activity in Rumania, and that no pre-emptive purchases could be made.

The Goeland Company's activities were viewed with the greatest suspicion after the 'Giurgiu Incident' of April 1940; the river was closely guarded, and after the fall of France the company's vessels were ordered upstream and the crews replaced by armed Rumanian guards. After it had become apparent that Rumania would not be defended against the Germans as many vessels as possible were evacuated to Istanbul; about seventy-five vessels in all seem to have got safely away. Some of these were made available to the Commander-in-Chief, Mediterranean; four barges were made available to the U.K.C.C. for its requirements at Smyrna; the remainder were offered for sale to the Turkish Government. The agreement concerning the S.F.N.D. ships, which had been sold to the company by the Acts of Sale of 17th July 1940, was denounced by the French embassy in Bucarest in a note to the British legation on 18th January 1941, and in June 1941 the Franco-German Armistice Commission began legal proceedings in Istanbul to quash the sale. The vessels left on the Danube were increasingly affected by Rumanian legislation. Thus by a law of 18th October 1940 all charter contracts, including those already in course, had to be submitted to the Ministry of Marine for approval. It also became illegal to withdraw from service on the Danube either by evacuation or the laying up of ships any vessels whose employment was in the interests of Rumanian national economy. However, the company's representatives had some success in the use of delaying tactics; the time taken in the submission of charters to the Ministry of Marine made it possible to postpone the actual loss of the vessels until weather conditions on the Danube made navigation impossible. By a law of 3rd December 1940 all Jewish-owned vessels were confiscated and ownership in them transferred to the state. In most cases the Rumanian authorities transferred these boats directly to German shipping companies, though not in time for their use before the winter. At the end of the year there were still twenty-three British ships on the Danube. Six Netherlands vessels had been taken over after the invasion of Holland, and the local managers were holding out successfully against attempts to charter them to a German firm. But it was impossible to withdraw them to Istanbul, and a contract was signed on 26th February 1941 for the sale to the Soviet Union of all British and Dutch vessels on the Danube. It was hoped that this transfer of the vessels to neutral ownership would keep them out of German hands; but the Rumanian Government seized the vessels as a reprisal for the

British seizure of the three Rumanian ships, and the Soviet Government did not seem disposed to press its claim very energetically.

Relations with Bulgaria were limited to some abortive negotiations about the export of soya, and a few supply and pre-emptive deals. In October the U.K.C.C. was able to conclude a barter transaction by which 7,000 tons of Bulgarian sunflower-seed cake and 2,500 tons of maize were exchanged for 2,000 tons of copper sulphate, and a further 7,150 tons of maize against 112 tons of wool. But the Bulgarian Minister of Commerce said that he was definitely precluded by German pressure from giving an export permit for the soya which the corporation hoped to purchase. Then in December the Minister of Commerce reopened the matter by asking whether the corporation could exchange some nickel sulphate and rubber for 3,000 tons of soya, and the Ministry agreed to bargain; but it soon became clear in the new year that nothing would come of this proposal. The Bulgarian maize secured by the corporation in October was disposed of to the Greeks; but transport difficulties made it impossible for the corporation to supply the copper sulphate in return.

The Italian Government gave an assurance, just after its entry into the war, that all goods, irrespective of origin, destined for Yugoslavia, would be allowed through the Mediterranean if carried in neutral ships; this raised hopes that Britain would still be able to secure the minerals reserved for the United Kingdom under the Yugoslav Minerals Protocol.¹ The Italians observed this assurance fairly well for a time, although there was some interference, followed by corresponding British restrictions. A first delivery of 100 tons of ferro-chrome from Yugoslavia in September, effected after long negotiations, gave the Ministry considerable gratification, as the ferro-chrome was produced by a German-controlled firm. Negotiations followed in Belgrade for a new Anglo-Yugoslav minerals agreement for 1941, but made little headway for some time. The Italian attack on Greece at the end of October created a threat to Salonika, through which all the minerals purchased from Yugoslavia had hitherto been exported; if Salonika fell, further mineral exports would have to be made by a long and costly overland journey to Istanbul. In any case the Yugoslavs, under heavy German pressure, blocked 350 tons of the ferro-chrome which the British had purchased, and it was decided that no further navicerts for Yugoslavia would be granted until all the blocked ferro-chrome had been released. In November the Ministry refused navicerts for large quantities of lubricating oil, rubber, and tin—important German deficiencies—for a Yugoslav ship, the *Bosiljka*, loading in the United States. However, it seemed that the Yugoslav Government was doing its best; by December it was known that 1,500 tons of ferro-chrome were on their way to the

¹ See above, p. 262.

Greek zone in Salonika, and that 2,000 tons of chrome concentrates were to follow. The Germans were known to be following these transactions closely, and the Yugoslavs were trying to evade this attention by conniving at the export of the minerals to bogus consignees. The British minister in Belgrade was instructed to discuss the whole minerals question again with the Yugoslav authorities and to try to come to some less hand-to-mouth arrangements for 1941.

In the first weeks of 1941 it seemed, indeed, that there was some prospect of a substantial agreement. It became known in January that Dr. Belin, the Governor of the Yugoslav National Bank, had, as a result of negotiations in Berlin, enabled his government on 24th January to remove the export ban which had prevented the shipping of minerals already paid for. As a result, 4,280 tons reached the frontier, and shipping arrangements were made for the removal of a further 3,500 tons blocked at Salonika. These quantities were shipped away as rapidly as possible. The U.K.C.C. concluded the purchase of 1,700 tons of hemp from Yugoslavia which were to be exchanged in Istanbul against jute and Egyptian cotton. At the beginning of February discussions were resumed for a new minerals agreement; but by 25th February it had been decided, in view of the uncertainties of the political situation, simply to continue the old protocol by an exchange of letters. The Yugoslav Government was also anxious about its supply position in the event of its being drawn into war, and made various requests for large quantities of raw materials and petroleum products; it was agreed that it should be allowed to ship what supplies it wished to Egypt, where they would be stored, and released speedily if hostilities ensued. In fact, however, the rapid German victories in Greece and Yugoslavia in April and May brought all these plans to an end. In July 1940 a number of barges of the Schultz fleet had been offered to the Yugoslav General Staff to be used for blocking the Danube in the event of war; on 6th April 1941 six, loaded with cement, were successfully sunk in a vital part of the river.

Only in Greece did the Ministry feel that it could obtain a reasonable return for its money. It was clear that the limited purchase by the U.K.C.C. of a few selected commodities for pre-emptive reasons would do little to strengthen resistance to the Germans, but it was only in Greece (among the Balkan States) that the Ministry felt able to do this by promoting two-way trade on the lines followed in Turkey and Spain. On 20th August 1940 a general offer was made to purchase the major part of the currant and sultana and olive oil crops, and the Greek production of chrome, magnesite, and pyrolusite; and in return to sell or facilitate the purchase of a wide range of the commodities of which Greece was in need. The existing Greco-German trade agreement was due to terminate on 31st August 1940, and the Greek Government anticipated severe German demands in-

volving breaches of the Anglo-Greek war-trade agreement. They begged the British to give them a free hand in negotiating with the Germans, on the understanding that they would drive as hard a bargain as possible; and while the Ministry was not prepared to go so far as this (in particular it urged that the Greeks should make no concessions about chrome) it hoped that the U.K.C.C.'s programme would stiffen resistance. In September, as a further inducement, the Greek Government was told that Britain would buy £1½ millions of tobacco outside the war-trade agreement, providing that German purchases were substantially reduced as a result of Greek adherence to the agreement; the British legation was also instructed to negotiate contracts for the purchase in 1941 of Greek chrome up to the 55,000 tons provided in the agreement. The Greco-German trade negotiations were concluded in Berlin on 20th September, and when details became available early in October it was seen that the quotas did not, in most cases, represent serious increases over the amounts allowed in the Anglo-Greek agreement. But the Greeks had promised 17,500 tons of chrome to the Germans, instead of the previous figure of 2,000 tons, and also a much higher quota for olive oil. The Greeks were urged to do their best to avoid sending the whole of these amounts.

Greece with her large mercantile marine had been much better placed than the other Balkan States for importing supplies, and for some weeks after Italy's entry into the war in June 1940 the Ministry allowed a number of Greek ships, with Italian safe conduct, to enter the Mediterranean at Gibraltar. In August, however, after the Italians had removed nearly all the cargo from the *Attiki* (in spite of a safe conduct), the Ministry decided that no further cargoes of value to the enemy could take this route, and the rhythm of Greek supplies, which had henceforth to travel round the Cape, was slowed down. In October the Italians allowed two cargoes to pass without interference, and promised to return some of the cargo of the *Attiki*, but this show of reasonableness ended with the attack on Greece on 28th October.

The attack transformed the Ministry's policy; its chief preoccupation now became the supply of goods to Greece, and the satisfaction of the most urgent Greek requirements. It still seemed inadvisable to allow her to build up larger stocks of important raw materials, but with this reservation the Ministry's policy was to see that she obtained as quickly as possible all the supplies that she needed for her war effort. This policy continued throughout the winter, but by the beginning of May 1941 the Germans were masters of the whole Balkan Peninsula (outside European Turkey), and Hungary and the Balkan States had been declared enemy territory for the purposes of the Trading with the Enemy Act and of the blockade.

The immediate economic-warfare problem in the final stages had been to get stocks of Greek and Yugoslav chrome and of other materials away from Salonika before the city fell. Only about 1,000 tons of chrome had, in fact, to be left behind. Lead was not considered to be worth shifting, and the purchase of antimony, which had caused intensive German and Italian attempts to monopolize exports earlier in the winter, was discontinued later by the U.K.C.C., as the enemy deficiency was not considered to be serious.

(ii)

Turkey

But Turkey remained, and it was on Turkey that the Ministry had placed its main hopes during the winter of 1940-41. The collapse of France and the closing of the Mediterranean to ordinary commerce was naturally a severe shock to Turkish politicians; for a time they appeared to lose confidence in the British power to resist. But Oran and the Battle of Britain modified this pessimism; Greek and British victories in Albania and Libya even inspired hope. Certainly the British Government was determined to strengthen Turkish resistance to Axis economic and political domination. A Foreign Office memorandum of 24th July 1940 defined policy comprehensively, and gave four reasons (with which no one was likely to quarrel) why Turkish friendship was vital to Britain. '(1) Turkey is our ally . . . (2) Turkey is a Mediterranean power . . . (3) Politically, Turkey is the leading state in the Balkans on the one hand, and of the Saadabad Powers on the other . . . (4) Geographically, Turkey lies on the direct route between Europe and our vital spheres of interest in the Middle East, namely, Iraq, Palestine, and Transjordan. It is hardly an exaggeration to say that on the friendship on Turkey depends our whole position in the Eastern Mediterranean, Egypt, and the Middle East.' The memorandum made the point that the original treaty of alliance had been due to fear of Italy, but this danger had receded, 'only to be replaced by the threat of her traditional enemy, the Soviet Union', and this might lead her to reverse her policy and throw herself into the arms of Germany. The British Government, to prevent any such development, must show the will, and the ability, to give assistance.

As regards Turkey's military and economic requirements, we must do what we can to provide her with the means of perfecting her own defences, of developing her own industries, improving her means of transport and depending less on Germany, who still represents a vital source of supply. Apart from convincing Turkey of the effective value

of the Alliance, such assistance has further important results. The more goods, especially steel and war material, that we are able to supply to Turkey, the more likelihood is there of preventing important Turkish raw materials from being exported to Germany, and the easier our own pre-emptive purchases. Moreover, in checking the development of economic relations between Turkey and Germany, we are checking the increase of German influence in the country through the instrumentality of German technicians, business men, and agents.

Here, then, as in Spain and Greece and in a lesser degree in Switzerland, economic-warfare policy called for not merely the denial of goods to the enemy by rationing and pre-emption, but a programme of economic assistance; and as rapidly as plans could be worked out in July a large programme of proposals for purchasing Turkish commodities and for despatching important supplies to Turkey was worked out by the Ministry and outlined to the Turkish Government. Great efforts were made to supply locomotives and railway equipment and goods ordered under previous government credits, and new proposals for financing the trade of the U.K.C.C., designed to assure the Turks that any sterling derived from their sales to the corporation would be readily utilizable, were put forward.

The need for all this was underlined by the signature of the Turco-German commercial agreement on 25th July 1940, which made it clear that a considerable volume of trade between the two countries would continue and even increase unless Turkey's requirements could be met from other sources. By the agreement the volume of commercial exchange between Turkey and Germany during the duration of the accord was fixed at £T21,400,000 for German exports to Turkey, and at the same value for Turkish exports to Germany. The German goods to be supplied to Turkey were divided according to three lists, numbered A_I, B_I, and C_I; Turkish supplies to Germany were in three further lists, A, B, and C. The goods entered in lists A, B, and C could be exchanged only against products indicated in the corresponding lists A_I, B_I, and C_I. A mixed committee was to be constituted to supervise the execution of the agreement. List A of Turkish exports to Germany included barley, oil seeds, olive oil, sulphur oil, mohair, goat hair, cotton, borax, emery, flax, vellonea, valex, millet, and opium. In the corresponding German list were thirty-nine locomotives, goods and passenger wagons, equipment for the Sivas cement factory, and pontoons. List B included tobacco, oil cake, and rags; B_I, various spares and installations and £T750,000 of cigarette paper. In list C the principal items were nuts and hazel nuts, raisins, figs, casings; the German list, C_I, included pharmaceutical products and railway spares. The agreement, which was published in the Turkish official gazette on 10th August, followed closely

the *Accord de Principe* of 12th June; an important addition was in Article IV, where the territory of Memel, the provinces of East Prussia, Danzig, and the provinces of Werthegau, Katovicz, and Zichenau were considered as German territory for the purposes of the agreement, whereas Bohemia and Moravia were excluded. The period of validity was limited to one year. The British heard on good authority on 14th August that the Germans had refused to sign unless the Turkish Government allowed them to utilize £T6 millions from the blocked credits, which would bring the value of the agreement to £T27 millions. The embassy suspected that the Germans had been authorized to use this credit by a confidential protocol which had not been published. There was also provision whereby either country might effect the payment of c.i.f. charges over and above the volume stipulated in the special agreement, and as freight and insurance rates were extremely heavy by the Danube and overland routes, this might augment the amount of £T21 millions by as much as twenty per cent. Thus the value of the agreement was likely to reach a figure of over £T31 millions.

The Ministry's general plans for countering German economic penetration called for a new financial agreement and for a considerable modification of the recently-established compulsory-rationing system. The former was signed, after prolonged negotiation, at Ankara on 22nd November 1940. The agreement provided for payment through special accounts for all goods purchased in Turkey by the U.K.C.C., and goods delivered by it from the sterling area. The Turkish Government was to obtain gold in respect of ten per cent. of all purchases effected by the U.K.C.C. Moreover, if the corporation's purchases in Turkey considerably exceeded its deliveries, the Turks would be entitled in certain circumstances to obtain further gold to rectify this situation. It was intended that the agreement should simplify the purchase of Turkish goods, and it was believed that the demand for goods from the sterling area and the possibility of supplying them were adequate to prevent the loss of gold.

There was no official rationing of Turkey as there was of other European neutrals; quota figures for all imports were kept in the Ministry but were not rigidly enforced. When applications for navicerts and export licences were made which would bring the commitments above the specified import figure they were referred to the Permits Committee for a decision. The committee acted on the general principle that (1) every facility was to be granted for military supplies consigned to Turkish Government departments which would be useful for the defence of the country, and (2) a steady flow of civil supplies was to be maintained in sufficient quantities to meet the reasonable needs of the civilian population and to avoid giving the impression that supplies were being withheld. In any case, delays

and difficulties of shipping made it extremely unlikely that Turkey would be able to obtain more than was necessary for her own internal consumption. It was agreed that in certain cases Turkish products, even though expensive and not essential to the Allied war effort, must be bought and paid for, if necessary, in materials and goods which the United Kingdom could ill afford to spare. Turkish Government departments and importers were encouraged to place orders for British goods; British exporters were granted export licences and guaranteed against transfer risks and the insolvency of buyers, and ships were provided as far as possible to carry the goods via the Cape and the Suez Canal. The general result was that the Turks were to some extent reassured that if they sold their products to Britain for sterling they would not only be able to spend the money obtained but would be certain of delivery of their orders. Accordingly, increasing purchases of olive oil and mohair, both of great value to the Germans, were made, as well as of chrome ore, tobacco, and dried fruits.

The conclusion of the Turco-German agreement raised some immediate problems with regard to the British purchasing programme. A contract had been concluded for the purchase of borax (pandermite), and the British Government was contemplating an option to be taken by the U.K.C.C. for production subsequent to that covered by the contract. It was suggested in departmental discussions in October 1940 that as the Turco-German agreement was for a definite period of one year the Turks might be able to force the mines to increase production and so deliver both the supplies contracted for by Britain, and the £T300,000 worth of pandermite to which Germany was entitled under the agreement. A somewhat different point seemed to have arisen in the case of mohair. Turkey was to supply to Germany £T1 million worth, and as this formed only a small part of Turkish production it was questioned whether British buying could affect deliveries to Germany. In both cases therefore the question arose as to whether it was necessary to proceed with the British purchases. The real problem was to decide whether Turkey would stand up to the Germans or not: 'if we exercise the option and if subsequently Turkey yields to German pressure to allow the export of borax to Germany it will be an inconvenient transaction for the U.K.C.C.' In the case of mohair it seemed very unlikely that Germany's requirements were limited to the modest amount provided for in the agreement; mohair was the most important source of high-grade wool within the blockade ring, and Germany had taken 55,000 out of 80,000 bales in 1939. The final decision was with the Treasury, which agreed by 25th October that the U.K.C.C. should take the option for the borax and should also purchase mohair, providing that Turkish cotton was not bought as

well. As it turned out, Germany's purchases of mohair were not on a substantial scale during the remainder of the winter of 1940-41.

Chrome, however, was the most important British purchase; negotiations about it remained in the hands of the embassy. Under the agreement of January 1940 (see p. 275) the British had the right to purchase the Turkish surplus production, and the only question outstanding in June 1940 was that of price. The collapse of France necessitated amendment to the agreement if the sale to France of the agreed four-fifteenths was to be discontinued. It was imperative that every effort should be made to keep the agreement in force, as chrome supplies were clearly of the utmost importance to Germany. By 23rd June 1940 no chrome had yet been purchased by Britain under the January agreement and the situation was causing serious discontent in Turkey; the Germans were pressing hard for chrome and offering double the British price. Although the price to be paid had been clearly defined in the January agreement as that of the London Metal Exchange—75s. per ton—the Turks had for some time past been demanding a higher price, using as a lever offers by Germany to supply badly-needed armaments in return for chrome. The French had already given way to Turkish pressure and offered 105s. per ton, and this had weakened the Ministry's bargaining position. The Ministry now offered to take over the whole 1950 production at a maximum of £5 per ton. In reply the Turks proposed to limit production, including stocks, for the remainder of 1940 to 180,000 tons, from which they would sell as much as possible direct to the United States. They asked 110s. per ton but the ambassador was successful in reducing this to 105s., with a scale upwards and downwards for differences of quality above and below forty-eight per cent., and to this the Ministry agreed. This amended agreement was signed on 1st August 1940 and provided that a further contract should be negotiated for the 1941 output. The Ministry was on the whole well satisfied, for the January agreement was tripartite and the Turks might well have claimed that they could sell chrome to France and still keep the letter of the agreement.

By the autumn of 1940 it became apparent that purchases of chrome had considerably more than pre-emptive value, as there was a rise in United States demands and little prospect that supplies from other sources could be expanded sufficiently to meet them. The Americans approached the Ministry, which readily agreed to sell them 100,000 tons, but for some time the Turks insisted on their right under the terms of the agreement to bar the resale by Britain of any chrome to a third country. On 14th September Lord Lothian reported that the Americans were increasingly anxious to obtain chrome, and he asked that all possible steps should be taken to assist them. Finally, after strong representations had been made to the

Turkish Government by the American ambassador in Ankara, and thanks in some measure to the British hold on the shipping position, the Turks agreed to the resale of chrome to America, and the whole 100,000 tons had left Turkey and were on their way to America by November.

Negotiations for the purchase of the 1941 output were begun at the end of 1940 and were not concluded until April 1941. The Turks agreed in principle to the renewal of the terms of the 1940 agreement but demanded a higher price on the grounds of German pressure and increased costs of production. They proposed 141s. per ton, the equivalent of the current United States price of \$23 with an adjustment for the dollar premium in Turkey, but omitting any downward adjustment for the freight element which largely fixed United States prices. As the Turks had accumulated stocks of 90,000 tons from the 1940 output, this represented a very considerable increase in price over that of 1940 and one not justified by the available figures of increased costs. Supplies were estimated at 250,000 tons, 160,000 tons new production and 90,000 tons stocks. The ambassador suggested that he should be authorized to conclude the contract for the whole 250,000 tons at 120s. per ton. On 25th February the Americans had agreed to take 100,000 tons of good metallurgical grades at \$21 per ton and to take their share of the increased 1941 price. A telegram was sent to Ankara agreeing to 120s. for the 1941 production but stating that the Ministry considered that the 90,000 tons 1940 stocks should be sold at the 1940 price of 105s. Later, however, it was decided that, in spite of the loss involved, and in view of the increased United States demand, the importance of chrome to Germany, and the general political necessity for pacifying the Turks, the price of 120s. should be accepted. On 27th March the ambassador telegraphed that although the Turks were claiming that the cost of production had risen twenty-two per cent. they were prepared to accept 115s. per ton. They agreed to limit production to 200,000 tons with a tolerance of five per cent., to accept 115s. for concentrated as well as for forty-eight per cent. ore, and to accept a variation of 3s. for each degree above or below forty-eight per cent. The Ministry was on the whole well satisfied with this offer, as the all-round price of 115s. per ton worked out at only 1s. 6d. or so above the basis of 105s. for 1940 stocks and 120s. for 1941 production, which it had been prepared to accept. A telegram was accordingly sent to Ankara on 5th April 1941 authorizing the ambassador to conclude the contract on these terms. In June he was given a definite assurance by the Turkish Foreign Minister that chrome would not be included in the trade agreements to be signed between Turkey and Germany as a result of the political pact of 5th June.

Chrome was merely the most important commodity involved in

the Ministry's relations with Turkey. Less important, but even more involved, was the problem of jute bags. These were imported, mainly from India; they were being used as wrappers for goods sent to Germany and occupied countries, and, even according to Turkish figures, imports of 'gunnies'—as the bags were called—into Turkey during the first five months of 1940 reached a total of 1,459 tons, as compared with 388¹ and 122 tons in the whole of 1938 and 1939 respectively. Early in June 1940, when the Ministry raised the matter, the Turkish Government replied that it was considering the position, and in the meantime navicert applications for the export of jute goods from Egypt and Port Said to Turkey were refused. A ration of 500 tons was proposed, but on 27th August this was increased to 4,000 tons by the Permits Committee after more accurate statistical information about Turkish imports had been obtained. But the ban remained in force pending some satisfactory guarantee from the Turkish Government. Then came reports from the ambassador that the question of jute supplies was becoming serious, and on 16th September it was decided that the ration should be increased to 8,000 tons a year (supposed to represent Turkey's annual requirements less the quantity normally sent to enemy and occupied territory) on condition that the re-export of jute bags and cloth either in their original form or as wrapping for exports to Germany should be prohibited. No very clear assurance appears to have been received from the Turkish Government but nevertheless the embargo was lifted; by the end of November the whole quota had been exhausted.

During the first three months of 1941 this problem continued to worry the Ministry; it soon became clear that Turkish promises against re-export, which had with difficulty been secured, were not being kept—partly on the grounds that the assurances had applied to enemy and occupied territory, and not to Hungary, which was being used as a cloak for purchases from Turkey. At last, on 5th March 1941, the Turkish Government said that it was prepared to take measures to prevent tin, jute bags, or hessian from the sterling area being used for the purpose of packing Turkish exports to enemy and occupied countries, but its definition of the latter excluded Rumania, Bulgaria, and Hungary, and it proposed to export goods in Turkish packing even to the former, on condition that the bags were returned. It also asked that an exception should be made in connection with hazel nuts; in this case it wished to use bags from the sterling area for packing £T5 millions of the nuts for export to Germany, and these bags were not to be returnable. This last demand seemed to confirm the suspicion that the Germans and Hungarians

¹ Indian figures showed 7,970 tons exports to Turkey in 1938. The bags entered Turkey under a 'customs drawback' and paid duty only if not re-exported. A large re-export trade existed, and the Turkish figures recorded only those bags remaining in Turkey after a period of eighteen to twenty-four months.

were buying nuts merely to obtain the bags. So a solution seemed as far away as ever. The trouble was that Turkish internal trade was undoubtedly being hampered by the restrictions and a strict rationing, if imposed, would almost certainly bring hardship to producers in the interior. It did not seem that guarantees against re-export could be relied on, and eventually the whole question became linked with that of the blacklisting of Turkish firms.

In October 1940 the British ambassador had reported that the refusal to grant foreign trade facilities to certain firms was having a salutary effect and had asked for wider listing of firms trading with the enemy, as Turkish exports to Germany were on the increase. Nevertheless by the spring of 1941 the Turks were 'desperately short of material and nervous and irritable' and were attributing the lack of supplies in some measure at least to the British listing policy. On 1st March 1941 the Turkish Secretary-General pressed for the abolition of war-trade lists in Turkey and offered to give an undertaking that no Turkish commodities would be exported to enemy countries except with government approval and in exchange for goods of which Turkey was in urgent need. The Ministry was prepared, reluctantly, to agree, if the Turks for their part would agree to limit the export of important commodities to the enemy; on 14th April the British ambassador replied that the Turkish Government found it impossible to agree to the Ministry's proposals but suggested some sort of 'gentleman's agreement' regarding exports to European neutrals. In London it was decided that 'in the Turks' present mood' and in view of current developments in the Near East it might be 'neither politic nor efficacious' to insist on maintaining the listing policy without modifications; for this reason therefore, and on the urgent recommendations of the ambassador, the Ministry agreed to accept the Turkish proposals. The ambassador was asked to inform the Turkish Government of this decision and to emphasize the unique nature of the concessions being made.

On 24th April a reply was sent to the ambassador's telegram of 5th March on the question of the re-export of packing materials. The Ministry agreed to the Turkish proposals on condition that Rumania, Bulgaria, Italy and its possessions, Yugoslavia, and Hungary were added to the list of prohibited destinations. It was agreed that goods might be re-exported in bags from the sterling area if the bags were returned, on condition that this was coupled with the Turkish Government's undertaking to permit the export only in return for goods essential to Turkey. A similar condition was attached to the other proposals made by the Turkish Government with regard to special exports and the German purchase of hazel nuts. A ration of 8,000 tons a year was again proposed, with a slightly increased rate in the early stages in view of the long continuation of the ban. These

proposals represented considerable concessions in conjunction with the revised listing policy, but no definite reply had been received from the Turkish Government by July 1941.

The German conquest of Greece, and the direct threat to the Straits and to Anatolia which resulted, brought to an end a clearly marked phase in Anglo-Turkish relations; an official British memorandum written on 1st March 1941 spoke with some satisfaction of the period since the fall of France as one in which German influence in Turkey had steadily waned, and British economic influence had been strengthened 'at small cost to ourselves'. The degree of success has obviously to be judged in the light of the very adverse political, military, and economic situation which existed in the summer of 1940; it was, according to any standard, a very relative one. The extent—and limitations—of British economic influence are roughly indicated by the development of pre-emption. In 1940 relatively small pre-emptive purchases, mainly of dried fruits and chrome, were made; of the 180,000 tons of chrome contracted for under the 1940 agreement only 77,849 tons were actually delivered, at a total cost of £406,766, and the whole amount was resold to the United States at a loss of only 2s. to 3s. per ton. In December 1939, 37,488 tons of dried fruits had been bought at a cost of £773,900; this was resold to the Ministry of Food, but in December 1940 the Turks had so increased their prices for dried fruits that 30,000 tons bought at a total cost of £1,127,000 were resold at a loss of £395,000. In 1941, 27,587 tons at a cost of £1,087,858 showed a loss of £599,394. In addition to chrome and dried fruits, purchases were made in 1940 of cottonseed cake, 16,257 tons at a cost of £121,756; borax, 5,400 tons; and 38,484 (long hundreds) eggs, at a cost of £20,177. In 1941 pre-emption continued on an increasing scale, in spite of high costs and difficulties of transport. Large purchases of mohair were made; the price was high and the difficulties of resale great, but the losses involved were considered to be justified in view of the enemy's needs. Olive oil was another important German deficiency; here the main problem was that of transport, and it was necessary to buy drums, which increased the cost considerably. Much of the oil was, however, resold to Palestine and the Middle East Forces. Purchases made in 1941 included the following items:

	<i>Tons</i>	<i>£</i>
Chrome	151,066	909,547
Mohair	3,350	907,850
		(£1,052,399 including freight and shipping)
Olive oil	5,091	450,673
Vallonea	5,000	68,028
Valex	1,000	50,137
Cottonseed cake	1,622	12,200
Cottonseed oil	8,000	60,509
Linseed cake	124	1,017
Sesame-seed cake	132½	916

These purchases certainly helped to tighten the blockade, to sustain the independence of Turkey by reducing her economic bondage to the Axis, and to enable her to import commodities vital to her defence.

But the extent of this development must not be exaggerated. The following figures show the value and percentage of Turkish foreign trade by principal countries during December 1940, and also for the whole of 1940.

Exports From Turkey

<i>To</i>	£T'000s		<i>Dec.</i> 1940	<i>May</i> 1941
	1940	% 1940			% 1939
Italy . . .	17,951	(16·11)	(10·81)	319
U.S.A. . . .	15,739	(14·12)	(14·30)	767
Rumania . . .	11,987	(10·76)	(1·40)	1,688
U.K.	11,551	(10·36)	(5·73)	1,937
Germany . . .	9,687	(8·69)	(37·29)	1,237
France	6,613	(5·93)	(4·42)	—
Hungary . . .	6,475	(5·81)	(1·22)	1,745
Switzerland . .	5,059	(4·54)	(1·51)	1,298
Czechoslovakia .	4,645	(4·17)	(4·76)	406
Greece	4,406	(3·95)	(1·26)	392

Imports Into Turkey

<i>From</i>	£T'000s		<i>Dec.</i> 1940	<i>May</i> 1941
	1940	% 1940			% 1939
Rumania . . .	10,806	(15·68)	(1·98)	1,096
U.K.	9,665	(14·02)	(6·25)	1,226
Germany . . .	8,083	(11·73)	(50·86)	521
U.S.A.	7,447	(10·80)	(9·89)	167
Czechoslovakia .	2,586	(3·67)	(1·51)	234

These tables, compiled by the British embassy, were based on the monthly official import and export figures, which Turkey ceased to publish after May 1941. Although incomplete these returns showed that during 1941 the United Kingdom maintained its position as Turkey's chief supplier up to May; she was Turkey's best customer up to April, although in May she took only 4·59 per cent. of Turkish exports. The figures for the whole twelve months from July 1940 to June 1941 were likewise incomplete, but they were sufficient to illustrate the drastic drop in Germany's share of Turkish trade from about fifty per cent. before the war to about ten per cent. in this period. The United Kingdom had replaced Germany as Turkey's best supplier and customer; but Germany retained a very considerable hold on Turkish economy, and the very substantial increase in Turkish trade with Rumania, Hungary, and Switzerland, as compared with the insignificant proportions of this trade before the war, was obviously accountable for in part by resales to Germany.

The Turkish Government made no attempt to deny the fact that this considerable volume of trade with Britain's enemies continued;

it tended always to argue that gratitude was due to it for the considerable reductions that had undoubtedly taken place. M. Menemencioglu, on 14th April 1941, in reply to a British proposal that no quantities of olive oil, oilseed and cake, cotton, mohair, wool, borax, tanning materials, and copper should be sent to the enemy or to territories under enemy control except as provided in the existing Turco-German agreements, insisted that it was impossible in practice to agree to this, but added that even without an agreement the Turkish Government had refused to allow the export of any of these commodities 'except in exchange for the country's most immediate requirements', although they had been offered fabulous prices for most of these commodities by central European powers. Although there were relatively large stocks of copper in the country, only a limited amount had been exported to facilitate the manufacture of goods required by them. The same was true of pig iron and steel; similarly the Turkish Government had refused to authorize the export of oils and fibres except in limited quantities and only against urgent needs, such as petroleum products, spares, and so on. The British commercial counsellor seems to have been satisfied that these statements were substantially correct, although it seems unlikely that the Turks really had any abundance of copper, pig iron, and steel. By this stage the German conquests in the Balkans had brought the threat of invasion to the Turkish frontiers, and the British Government had to decide whether to regard Turkish friendship as virtually lost, or to strive by redoubled efforts in the economic and military fields to strengthen her against the Axis. Ultimately this necessitated a decision in the sphere of high politics, but the decision was of immediate importance to the conduct of economic warfare. These developments will be examined in the next volume.

(iii)

The Middle East

The Middle Eastern States south and east of Turkey were all in some degree under British control, direct or indirect; Iraq was an ally, although a decidedly unresponsive one, Egypt an ally with the British in effective control, Saudi Arabia under Ibn Saud was a genuine friend. Iran and Afghanistan were neutrals, suspected of some trade with Germany, and in Syria there was a Vichy Government which might be capable of anything. The area in fact produced examples of most of the problems of economic warfare—pre-emption, transit trade, contraband and enemy-export control, and a picturesque story of the running of supplies to the enemy in dhows.

By September 1940 the Ministry had collected a considerable amount of evidence of transit trade with the enemy through Iraq and Iran; it was, for example, known that the Italians had been endeavouring to import rubber through Basra from the Netherlands East Indies, and two million metres of parachute silk were said to have been transported to Germany through Iraq by the land route. Plans were therefore drawn up for the setting up of adequate contraband and enemy-export control in the Persian Gulf, and the extension of compulsory navicerts and certificates of origin to Iran and Iraq. The Admiralty approved in principle the establishment of a contraband-control base at Bahrein. But as a member of the Ministry noted on 2nd April 1941, it took 'an unconscionable time to surmount the various difficulties with which we have been confronted in connection with this seemingly simple operation of extending control'. First of all the Foreign Office objected on the political ground that serious repercussions might follow the extension of the necessary measures of control to Iran. The Ministry urged that 'half measures' would be disastrous, and that the importance of the matter was increased by the desire of the British Government to submit Syria to the maximum economic pressure. Substantial agreement as to the procedure to be adopted was reached between the various departments in December 1940, and both countries were made 'dangerous destinations' for the purpose of United Kingdom export licensing. The strict control that was envisaged would affect Japanese and Netherlands ships, but Sir Robert Craigie said that there was no need to re-consider the policy in deference to Japanese susceptibilities. The British representatives at Baghdad and Tehran agreed during February 1941 to the proposed detailed procedure, although Sir R. Bullard asked to be allowed to give the Iranian Government advance notice, which meant a further short delay. By then the Netherlands Government had asked for time to consult the Netherlands East Indies, and not until the end of April was it known that the latter had no objection! The two systems were finally introduced on 15th May 1941. Plans were then elaborated for a system of rationing of Iraqi and Iranian imports.

Some extension of contraband-control measures was also necessary in the Red Sea. The control base at Aden, which had commenced to deal with northbound Italian shipping on 15th December 1939, continued to be of use after Italy's entry into the war for the contraband control of certain ships of other nationalities, notably Japanese, whose government, like the Italian, objected to control in the Canal area. But a new problem now appeared; contraband or enemy exports were being run across the Red Sea in dhows to and from Eritrea. The Governor of Aden called attention to this traffic in July 1940, and proposed that the Administrator at Kamaran should be appointed a

contraband-control officer and that dhows caught in the traffic should be sent there. This proposal needed careful consideration in view of the status of Kamaran, but on 2nd October it was agreed that the plan should be adopted; no actual seizure could take place at Kamaran, but where the Administrator found a *prima facie* case the ship and cargo could be sent to Aden or, alternatively, the cargo could be landed at Kamaran and forwarded to Aden. The dhow traffic involved the Yemen, Sudan, and Saudi Arabia. Control of the traffic was improved during the following months; by the end of March 1941 effective Italian resistance in Abyssinia and Eritrea was at an end, and in April 1941 it became possible to close down the contraband-control base at Aden.

The ending of enemy resistance also eased relations with Saudi Arabia. The Ministry had decided in November 1940 that a quota system would be needed for certain commodities, particularly food-stuffs and petroleum, which were being imported by Saudi Arabia in increasing quantities and were believed to be finding their way to Eritrea and Italian East Africa. It was proposed to base the quotas on an average of normal imports for 1937, 1938, and 1939. In December a system of allotments was prepared to cover imports of these commodities from sources under British control. Trade in the meantime was limited to normal. However, when the plan was submitted to Ibn Saud he at once showed himself to be 'deeply wounded' by the suggestion that the British did not trust his promise to prohibit re-export to the enemy. The fact was that although he could be relied on to do everything within his power it would, in the Ministry's view, be impossible for him to prevent leakages in view of the natural difficulties presented by Saudi Arabia's long coastline, the proximity of Eritrea, and the business instincts of Arab merchants who would be quite incapable of resisting the temptation of large profits from trade with the Italians. On the other hand the political importance of his friendship overrode economic-warfare considerations, and General Wavell was accordingly asked whether the proposed measures were necessary in the interests of the East African campaign. By this stage the Italians were near collapse, and he was able to reply that the matter could be safely left to Ibn Saud. All control of Saudi Arabian imports was thereupon abandoned. On the other hand the export of all petroleum products to the Yemen from India, Egypt, and the Sudan was prohibited in February 1941, and this control was continued after the Italian collapse in East Africa in view of the generally pro-Italian attitude of the Imam.

Political relations with Iraq and Iran were difficult throughout this period and the frequent inability of the British to send needed supplies was a further obstacle to a successful economic-warfare policy. In the summer of 1940 the idea of a war-trade agreement with

Iran had to be abandoned, and Iran for her part cancelled a credit of £5 millions granted by the British. Here and in Afghanistan the purchase of wool and cotton seemed desirable for political reasons, and continued to be the subject of enquiries in succeeding months. A pre-emptive purchase of wool, which the Ministry had contemplated, fell through owing to the large increase in price (due to exchange manipulation) and to the reduction of the quantity obtainable from 5,000 to 1,500 tons. A British offer to purchase 5,000 tons was rejected by the Iranian Government, apparently because acceptance would have put them into difficulties with the German and Soviet authorities. A purchase of Afghan wool fell through when the Afghan Government sold most of its available stocks to Russia. The Government of India did, however, buy 10,000 tons of Afghan cotton which might otherwise have gone to Germany.

In the autumn plans were drawn up for the extension of the activities of the U.K.C.C. to Iraq and Iran, and representatives of the corporation were established in Baghdad and Tehran by November. There was little hope that large-scale purchases would be possible for some time, although small deals were put through with established traders. By the end of 1940 the estrangement of Iraq, and growing Italian and Japanese influence, led to the discussion of plans for financial pressure, and in January 1941 the U.K.C.C. representative in Baghdad was instructed to suspend operations until a government came into power with a greater sense of the British alliance than had that of Rashid Ali. The aim of this pressure was to induce the Iraqi Government to break off relations with Italy; in the meantime, however, Britain was without an economic-warfare policy in Iraq (apart from plans for control of Iraqi imports) and the Ministry made it clear to the Foreign Office that it did not consider that this negative policy could continue for long. It was known in March, for instance, that plans were being made to export wool from Iraq to Germany through Iran, and this might have to be met by extensive pre-emptive purchases; the Ministry was equally alarmed by reports of plans to deliver German arms and railway coaches to Iraq through Iran, and by the refusal of the Iraqi Government to declare such traffic illegal. Then at the end of April came the landing of British forces at Basra; military operations followed, and with them the further suspension (apart from the withholding of navicerts) of economic-warfare activities.

Events followed a more peaceful, but not much more successful, course in Iran during the early months of 1941. The U.K.C.C.'s representative in Tehran had plans to buy 3,500 tons of wool, and the Iranian Government was seeking to import wheat from India and Australia. Release of the wheat from India was suspended for a time on account of the suspicion that wheat, not to mention barley and rice, was being exported from Iran to Germany; but in February the

Ministry agreed to the release in return for facilities for pre-empting wool. Then in March there was news of a sudden and unexpected wheat shortage in India; Greece had priority for what surplus wheat exports were available, and it seemed that Iran would have to go short, and that this would make the position of the U.K.C.C.'s representative in Tehran untenable. It was decided that as the British had had to default so many times on supplies to Iran—as in the case of rails and locomotives—and as there was a genuine shortage in parts of Iran, everything must be done to supply the wheat, and in May the British were able after all to facilitate export from India. By this stage plans for the purchase of some 2,000 tons of wool were well advanced, and were expected to strengthen the position of the U.K.C.C. On the other hand, steps were taken in May to check the import of supplies such as jute cloth, coconut oil, and tanning material, and this was the prelude to the introduction of a comprehensive rationing scheme, which was still under discussion during June. The Soviet-German war was soon to change the whole Allied position in this area.

Finally, we must notice the repercussions of the State Department's well-meant, but embarrassing, relief policy for the French Empire on the position of the Vichy outpost in Syria. Here, as in north-west Africa, the Ministry sympathized with the view that for political and military reasons it was desirable to keep the situation as stable as possible, but it had its usual reservations on the extent to which control could safely be relaxed. It agreed that the situation should not be allowed to deteriorate owing to economic discontent. The blockade was not oppressive enough to bring Syria over to the Allied side, but it was having the unfortunate result of allowing her no outlet, other than Germany, for her important production of wool and silk. In addition, Palestine badly needed a variety of Syrian products, the supply of which would save shipping. The United States Government was pressing strongly for the Syrians to be allowed to export various products to the United States, and wished to send to Syria some harmless products, including particularly tinned milk for Syrian children.

Accordingly there was a substantial change in the Ministry's policy in March 1941, and the Syrian authorities were told that the British were prepared to allow: (1) the resumption of their normal exports to the United States in return for harmless imports; (2) the export to Palestine of such of the latter's requirements as could be met from Syria, in return for imports from the sterling area; (3) the purchase by the United Kingdom of Syrian wool and silk. This was accepted by the Syrian Government as a basis for negotiation, and arrangements were made for discussion in Jerusalem of the whole programme of trade between the sterling area and Syria. Here, too, the opening

up of the war in the early summer prevented further progress. On 15th May came the announcement from Vichy of closer Franco-German collaboration, and it was the landing of German aeroplanes in Syria on the way to Iraq which revealed the new course in action. On 27th May Syria was declared enemy-controlled territory for the purpose of the Trading with the Enemy Act and of economic warfare, and the negotiations for the purchase of Syrian wool and other products, and for the supply of Palestine's requirements from Syria, were broken off.

CHAPTER XIX

NORTHERN NEUTRALITY: SWEDEN AND FINLAND

WITH the German invasion of Denmark and Norway on 9th April 1940 the whole basis of British economic relations with the Baltic States was upset; at first attempts were made to keep communications and traffic open, but in June, after Norway and France had ceased hostilities, the full gravity of the situation in northern Europe became evident.

The two basic aims of British blockade policy of course remained: supplies from overseas neutrals must be prevented from reaching German-occupied Europe through Finland and Sweden, and Sweden's valuable exports of native produce to Germany must be limited by every practicable means. But in both cases the new situation, in which the two states were militarily at the mercy of Germany, introduced complications which transcended purely economic-warfare considerations. Sweden's neutrality was an asset to the Allies which they could not afford to endanger; pressure had to be limited to what was compatible with a strengthening, or maintaining, of her neutral position. It was as a centre of military intelligence that the value of an independent Sweden was, perhaps, most evident; it also enabled secret communications to be maintained for propaganda and intelligence purposes with Britain's friends in occupied territory and in Germany, and it gave quick communication with Russia. Less tangible (but not without weight in British calculations) were the political advantages of a free democratic oasis in the totalitarian desert. Furthermore, the British Government still hoped, in spite of the German victories, to transport from Sweden important supplies of iron, steel, and ferro-chrome.

Sweden regarded her earlier policy of strict neutrality based on the maintenance of her pre-war level of foreign trade as the one least likely to ruin her either economically or politically. In the war-trade agreement the British Government had already recognized the impracticability of attempting to persuade Sweden to cut off supplies of iron ore to Germany, and had confined itself to securing Sweden's undertaking not to increase her supplies to Germany beyond the 1938 level, and, if reasonable excuses arose for reducing them, to take advantage of these excuses. All that the British Government could now hope for was the maintenance of the spirit of the agreement, and,

for the first twelve months after the fall of France, Sweden was subjected to heavy pressure from both Germany and England. On the whole, she succeeded fairly well in keeping to a *via media*, although her course varied markedly at times from one side of the road to the other. The British Government's chief means of pressure was its control of Swedish shipping and Sweden's need for oil and other supplies through the blockade and not obtainable from German-controlled Europe. Sweden's chief weapon was the threat that an unduly harsh blockade policy would drive her completely into the German camp.

Finland had not hitherto figured very prominently in the British blockade of Germany. Her pre-war trade with Germany was mainly in foodstuffs (butter, cheese, eggs, etc.) and raw materials, such as hides, skins, timber and pulp, paper, cardboard, and cellulose. She could also supply, however, copper, molybdenum, and nickel. The Soviet-Finnish war had interrupted commercial exchanges, and it was only after March 1940 that, in adjusting herself to her new relationship with Russia, she had at the same time to take account of her new and dangerous proximity to German power, which by June was established on her western frontier. Her future rôle was as yet undefined: she might become the victim of Soviet-German partition, she might find it necessary or possible to join Germany in a future Soviet-German war, she might maintain a precarious independence as a buffer between Soviet and German interests. Her immediate concern was to reopen communications with the outer world. Britain had only the very limited means of pressure afforded by control of Finnish trade through Petsamo, and could really do little more than watch events during the next twelve months.

The Joint Standing Committee was the chief means of communication between Sweden and the United Kingdom in the economic-warfare sphere. One of the earliest indications of Sweden's line of policy was M. Wallenberg's assurance on 7th May 1940 that his government desired the maintenance of the commission as well as the war-trade agreement—with modifications to meet the needs of the time—as 'one of the main bulwarks against German pressure'. On its establishment it had been agreed that each government should nominate half the members, and that, at the invitation of the two governments, representatives of the governments of Allied countries could be admitted to membership. This actually happened in 1942 when the United States was invited to join. Arrangements were made for the co-option of experts when special advice was required. The commission met in Stockholm or London as occasion demanded. Meetings tended to be less frequent after 1942, and throughout were held more often in Stockholm than in London. The commission's recommendations were generally followed by higher authorities, although it was not usually called in to deal with affairs of really major

policy. (It did not, for example, handle the iron-ore question.) A large part of the work consisted in the consideration of individual applications of firms to effect imports and exports outside the terms of the war-trade agreement, and, after the introduction of quotas, applications to effect imports and exports not provided for by the quotas. At times the assistance of the commission was used to try to keep Swedish trading activities under the control of Allied interests. This occurred in connection with the issue of certificates of origin and interest and with attempts to urge the Swedes to bring pressure to bear on suspect Swedish firms, to maintain the quota system, and to watch the ultimate use and destination of navicerted goods.

The first efforts of the Ministry between April and June 1940 to adjust itself to the new situation were, owing to the completeness of the German victory, largely abortive. Sweden and Finland hoped to develop some northern route to the Finnish port of Petsamo as well as to some Norwegian port such as Rombaksfjord above Narvik, Kirkenes, or Skibotn. An unsuccessful attempt was made to obtain an outlet for Swedish traffic from the Baltic through the Kiel Canal; the Ministry, although sympathetic, disliked the plan as it would bring Swedish shipping under German control, and the Germans themselves settled the matter in mid-June by refusing their sanction. Sweden also tried to improve the trans-European land routes and to develop trade with, and trade routes through, Russia to Vladivostok, Murmansk, and Basra. The results of all these attempts were meagre, and after the fall of Norway, Swedish attention tended to concentrate on the Gothenburg route. The Ministry was not opposed to the opening up of the northern routes, but it did its best to prevent Swedish and other shipping from reaching the occupied ports of Denmark and Norway, and to stiffen Sweden's resistance to German pressure. Appreciating the probable psychological effects, it supported, in April 1940, a Swedish request for the delivery of 300 aeroplanes from the United States, and the War Cabinet agreed.

A matter of immediate concern during these months was the disposal of Scandinavian and Baltic shipping and cargoes which had been prevented from reaching northern ports. An interdepartmental meeting on 16th April made arrangements for the disposal of coal cargoes, and M.E.W., at the request of the Ministry of Shipping, undertook negotiations, which proved to be arduous and protracted, with regard to cargoes other than coal. Early in May Swedish importers were reported to be extremely discontented with the British attitude, especially because of their difficulty in obtaining definite information about the disposal of special consignments. But eventually, after much discussion, an agreement was drawn up and accepted by the Swedish Minister on 23rd May. This provided for the setting up of a joint Swedish, British, and French committee in

London to assist in the disposal of the cargoes. Perishable goods would be sold for whatever price they would fetch. Other suitable cargoes, where the property had passed to the Swedish importer, were to be sold to the British Government on a 'no profit no loss' basis. All other cargoes, not including coal, would be landed and sold by the owner in the most profitable market obtainable, or a navicert could be obtained for re-export. Arrangements were made to ensure on purchase the title to the goods. The Swedish War Risks Insurance Office was to calculate the costs of the goods and a method of securing the necessary payment was provided. In cases of dispute the decision of the firm of Price Waterhouse & Co. was to be sought. A separate letter dealt with coal cargoes. Shortly before this an agreement had been concluded with the Minister of Shipping, by which some ships had been chartered to the British; this arrangement was waiting to come into force with the Cargoes Agreement. Both were in action by 29th May.

A good many difficulties remained. The wording of the agreement about the payment of charges proved inadequate and caused endless friction. Then increased congestion at the ports, and much administrative confusion, followed the military collapse of further European states. The thankless task of dealing with these matters fell to the joint Anglo-Swedish-French committee. Many of the Swedish cargoes in United Kingdom ports were disposed of by the end of 1940, but the financial aspect of the matter was not finally settled until the end of December 1945, when a substantial claim by the Swedes for interest on delayed payments was resisted and a compromise reached at a much reduced figure. A closely-related problem was the payment for Swedish goods sold to Great Britain before the German occupation of Norway and loaded in ships which had subsequently to lie off the Swedish west coast, or which in some cases had been seized by the Germans.

The cargoes agreement and the continuance of the Joint Standing Commission were welcome evidence of the desire of the Swedish Government to maintain the war-trade agreement with Britain. But concessions had to be made to German pressure. As it turned out the Germans were content to leave Sweden her legal independence; an invasion would have tied up more German troops and involved the probable destruction of the iron-ore mines and no doubt was considered unnecessary in view of the isolation of Sweden from any effective military contact with Britain. Moreover, the acquisition of the Lorraine and Luxembourg fields had somewhat reduced German dependence on Swedish ore supplies. She had, also, political reasons for not exacerbating her relations with the two surviving northern neutrals. Immediately after the invasion of Norway the Soviet Government had made clear its interest in Swedish neutrality; the

German Government had no desire to quarrel with Russia at this stage, and later in the year, when its plans for war with Russia were being elaborated, it needed the co-operation of Finland in facilitating the operations of the XXI German army group.¹ Accordingly, although the German Government showed quickly enough its determination to profit economically from its military victories, it did not drive the Swedes to desperation. German trading representatives arrived in Stockholm on 24th April to review the Swedish-German war-trade agreement. Early discussions were polite enough; business talks were arranged for Berlin on 27th May and final details settled in Stockholm in June. Throughout the negotiations the Swedes appeared to be resisting German pressure as far as they could.

Nevertheless, Germany gained certain advantages. By 20th June a shipping agreement had been reached to cover the contemplated increased exports of German coal to Sweden. Swedish ships carrying an unaltered quantity of ore from Luleå were to collect the coal from Germany. German shipping previously employed in this way was thus freed. The trade negotiations closed on 10th July. According to press and official reports the terms were fairly extensive and the advantages appeared to be reciprocal. The clearing arrangements between the two countries were to be calculated on the basis of an increase of 140 million kronor (about £8·3 millions) in the value of Swedish exports in 1940. But, until further notice, all freight and shipping costs, whether in commercial exchange or transit, were to be paid through the clearing. The price agreement, by which the cost of certain goods imported from Germany depended on the cost to Germany of Swedish iron ore, was to continue. This arrangement was to apply to German deliveries of coal and coke, which were thus to benefit by the rise in prices. It did not, however, concern some of the most important Swedish exports, those of iron, steel, paper, timber, and pulp, over which a special agreement was reached. During 1940 Germany was to send an extra one million tons of coal and 200,000 tons of coke to Sweden, thus bringing the total deliveries to four million tons of coal and 1,700,000 tons of coke. She also agreed to increase her supplies of chemicals and machinery. In return Sweden promised to increase her export to Germany of ferrosilicate to 7,500 tons, and of pig iron by fifty per cent., thus bringing the total up to 20,000 tons. Iron ore was not discussed and Germany was understood not to expect more than seven million tons. Sweden resisted the demand for increased shipments of special steel, but it was agreed that those of ordinary steel bars were to be increased by 10,000 tons. Sweden was to ship to Germany timber in value up to 50 million German marks and 220,000 tons of pulp, but both quan-

¹ M. Beloff, *The Foreign Policy of Soviet Russia* (1949), ii, 311. R. I. Sontag and J. S. Beddie (eds.), *Nazi-Soviet Relations, 1939-41* (1948), pp. 261, 264.

tities could be increased. She also agreed to lift the import ban on German luxury goods. During 1940 she was to send 15,000 tons of lead ore and 30,000 tons of zinc ore to Germany, and also a quantity for processing.

The Swedes continued to feel the pressure of German economic demands during the next twelve months, but it cannot be said that the Germans overplayed their hand. They were, of course, getting more or less all they wanted from Sweden under the existing trade agreements. Owing to invisible exports and imports and to monetary adjustments the trade figures did not give an absolute picture, but they indicated well enough the extent to which Sweden had become absorbed into the European economy. Under a further agreement of 14th December 1940 the price that Sweden was to pay in 1941 for German goods was increased by twenty per cent. for coke, fifteen per cent. for pig iron, and eighteen per cent. for commercial iron and chemicals. Sweden was to return some of the tar oil extracted from the imported coal. There was to be no compensatory increase of the price paid for Swedish iron ore. The total quantities of Swedish iron ore and German iron, coke, and coal to be shipped were to be the same as in 1940, with an allowance for arrears in the case of iron, coke, and coal. It was understood that nearly half the goods supplied by Germany would be made up of textiles and machinery, etc., and Swedish exports largely of wood and its products, including paper. Thus the main part of Swedish-German trade did not fall within the terms of the Anglo-Swedish war-trade agreement.

There were further Swedish agreements with Denmark (December 1940, March 1941), with Holland and Belgium, and with Hungary (March 1941), whereby Axis Europe absorbed a large quantity of Swedish wood and wood extracts, iron, and steel. During March and April agreement was reached with Norway and Finland and negotiations were under way with Turkey. A provisional agreement was reached regarding Swedish-Spanish commercial exchanges and on 30th May an agreement was signed with the Soviet Union for the liquidation of Swedish claims in the Baltic states. Eventually also a Swedish-German shipping agreement, covering the period 1st May–December 1941, considerably improved the existing arrangements regarding Swedish freight.

In July 1940 it was discovered that the Germans had induced the Swedes to infringe the war-trade agreement with Britain by exporting 15,000 tons of lead and 60,000 tons of zinc concentrates. But there was little that the Ministry could do at this stage to wean the Swedes from the German system. During the twelve months after June 1940 Britain's main economic-warfare task in northern Europe was, therefore, to ensure, by the control of shipping to and from Sweden through Petsamo and Gothenburg, that imports were not re-exported.

There were one or two cases of successful pre-emption. Arrangements were made to take over and pay for one or two individual consignments of Swedish charcoal pig-iron which were to be stocked for the time in Sweden. Pig iron was an indigenous product, but ferro-chrome purchases, in which the Ministry was also interested, raised the question as to whether the chrome had been imported through the British controls. If so, it should fall under the terms of the war-trade agreement and have been used only for Swedish or Allied requirements. Any Swedish pre-war contracts with Germany were to be carried out from stocks in existence at the outbreak of war. In July 1940 the British were anxious to purchase a stock of ferro-chrome and store it in Sweden so as to prevent its passing into enemy hands. Eventually, by September, the Swedish firm *Ferrolegeringar* made an offer to sell 2,000 tons of ferro-chrome and to store the goods free of charge at *Trollhätten* until such time as export was possible. The Swedish Government agreed to the transaction and undertook not to requisition the stocks except with full compensation and not to export or sell them to third parties except with British approval. The ferro-chrome was to be manufactured from stocks of chrome ore imported into Sweden through British controls since the beginning of the war, and all stocks, which were not needed for internal Swedish requirements, were to be reserved for the execution of British contracts. Part of the ferro-chrome purchased was stored by *Ferrolegeringar* and part stocked under the name of *Bisco*. The cost of the transaction up to February 1941 was 2,030,193 kronor (about £120,000).

The story of the *Bergwerks A/B Freja* iron mines affords an example of a struggle between both belligerents to get control of Swedish industries useful for the war effort. The *Freja* mines were a Swedish company whose shares were registered with the Allies and of which *M. Oskar Federer*, who was known for his pro-Ally interest, had been appointed general manager. The total output of these mines was difficult to assess, but the Ministry's figures assumed shipments from *Luleå* of 303,000 tons in 1938 and 367,000 tons in 1939. The mines had supplied the great *Witkowitz* iron works in *Czechoslovakia*, now under German control. In March 1939 the *Metal Industries Investments Ltd.*, London, acquired 2,600 shares in the mines formerly owned by the *Witkowitz* works. Two days earlier the company had been entered in the *Freja* share register as having acquired a further 2,596 shares. According to German authorities these shares had been acquired by the *Witkowitz* works in December 1937 from *N.V. Commissie en Handelsbank* in Amsterdam. The Germans in December 1939 set about trying to get back the *Witkowitz* interests in the mines and a lawsuit was started. *Karl Kuchinka*, who claimed the sole right of signing for *Witkowitz*,

lodged a claim with the Stockholm City Court against the Metal Industries and against the Bergwerks, which was represented by Carl Erik Lansberg, Sune Wetter, and Rolf Heidenstam. The legal aspect of the matter involved three points. First, the action of the Skandinaviska Banken in handing over the shares to the English shareholders was questioned. Secondly, the Germans disputed the election of M. Federer as general manager on the grounds that the shareholders had not been properly represented at the election. Thirdly, there was the main case which involved the Freja directors and the Metal Industries. The case concerning the ownership of the shares dragged on for two years and eventually was taken to the Swedish High Court where it was decided that the matter should be settled after the war. By 1944 it was possible to report that the Germans were no longer exercising any control over the Bergwerks and no money was being paid to Witkowitz. The control of the Bergwerks was solely in the interests of the Metal Industries.

Finland concluded a trade agreement with Germany on 29th June 1940 which provided that Finnish exports to Germany during the remainder of the year should amount to two milliard Finnish marks, providing that Finland bought German goods to corresponding amounts. This represented a considerable increase over Finland's total annual exports in recent years, and was expected to consist mainly of products of the wood-working industries, minerals, and such foodstuffs as she could spare. Among German deliveries armaments were expected to figure prominently. Finland was to receive 500,000 tons of coal from Upper Silesia and 250,000 from Westphalia, but exports of coke from Germany (125,000 tons) were expected to be quite inadequate for her needs. Potentially the most important of Finnish exports to Germany was nickel, and the Ministry had to watch more or less helplessly the negotiations between Finland and the Russian and German Governments over the valuable nickel deposits in the Petsamo region, the richest in Europe. Some years before the war the International Nickel Company of Canada had obtained a concession for the exploitation of nickel in the Petsamo region, and according to this concession production was not to start until 1942. In July 1940, however, as a result of German pressure, the Finnish Government asked the company to expedite production and to sell the output to persons named by the Finnish Government. The Ministry estimated Germany's needs at 12,000 tons of nickel—or more—a year if her armaments industry was to obtain its maximum effectiveness.¹ Germany could count on some 2,000 tons from her domestic production and from Norway, and was believed to have picked up stocks of from 2,000 to 4,000 tons in France. The average nickel content of the Petsamo ore was four per

¹ United Kingdom consumption was at least 24,000 tons per annum.

cent. As it was known that the Finns intended to pass the greater part of the ore to Germany the company refused, and the Finnish authorities then placed a German in charge of the mine and came to an agreement with Germany whereby the whole output of the mine would be sent to Germany for refining. Sixty per cent. of the refined metal was then to be retained by Germany, and the remainder, less a percentage for costs, was to be re-exported to Russia. Export of ore was to be expedited, although the Finns did not expect to ship any before March 1941. An export therefore of 200 tons a day would give Germany some 3,000 tons a year. As it happened, Germany was to receive little, if any, nickel from Finland during the remainder of the war, and the frustrating of these supplies was one of the most important, and one of the most obscure, triumphs of economic warfare. Friends of Britain in Sweden saw to it that Finland did not receive the machinery necessary for putting the mines into full working order.

But in the summer of 1940 the British Government had every possible objection to the Finnish action, although it could do little beyond making clear its opposition to the acquisition of any part of the nickel by Germany. The Ministry did its best to hold up the Finnish-German negotiations by delaying tactics, and it endeavoured to stimulate the opposition of the Russians to the arrangement. During prolonged Finnish-Soviet trade negotiations from May to September the Finnish minister in Moscow was strongly pressed to hand over the concession to a Soviet-Finnish company, and the British Government consistently refused to support the Finns in resisting these claims. In the end the Germans had their way.

By an exchange of notes on 31st December 1940 the Finnish-German treaty of 29th June 1940 was prolonged for a further year to 31st December 1941. On 7th March 1941 a further agreement provided for the establishment of quotas between the two countries during 1941 to a value of 3.7 milliard Finnish marks on each side. This figure was twenty-five per cent. higher than the total Finnish exports in 1940; the aggregate value of the goods to be exchanged represented about one-half of Finland's total foreign trade in normal times. Exports to Germany in 1940 had already amounted to about 50 per cent. of Finland's exports, as compared with 14 per cent. in 1938. It was some slight consolation to the Ministry to know that no minerals were to be exported to Germany in excess of deliveries already contracted for, the total value of which was estimated at between five and seven per cent. of the total value of exports to Germany under the new agreement. The Germans had not pressed for any increase except in the case of nickel in the event of Russia's not taking its forty per cent. share of Petsamon Nikkeli's output. In June 1941 the Ministry's experts estimated that exports of Finnish

copper to Germany would not exceed 11,000 tons for 1941. 480 tons a year of molybdenum were being exported to Germany, and exports of nickel were believed to have begun.

But while the Ministry was thus unable to influence to any considerable extent the flow of indigenous Swedish and Finnish products to Germany it could exercise some control over the overseas trade of the two countries through Petsamo and Gothenburg. This was, however, on a small scale, and the delay of the Ministry in applying the quota system to Sweden was due mainly to the fact that the volume of Swedish imports from overseas was so slight as to make the devising of quotas more or less academic for the time being.

For some months after the fall of Norway Petsamo was the only channel through which goods destined for Finland and Sweden could pass. For security reasons the Admiralty was not prepared at this stage to allow Swedish ships to go to and from Gothenburg. During the early summer the facilities of Petsamo had been considerably improved. Lorry transport from the port south to the railhead was arranged. The Germans promised early in July 1940 not to interfere with Finnish imports into Petsamo whatever their origin, and this seemed as favourable an attitude as could be expected; furthermore the British Government was hoping to secure considerable exports of Swedish steel which were to be shipped from Petsamo to consignees in the United States, and from there to England. A restricted trade was therefore allowed (16th July). The Finns were naturally anxious to reserve the use of the port entirely to themselves, but in consideration of the assistance given by the Swedes in the organization of the motor transport to the railhead, they agreed to allow Sweden thirty per cent. of the total volume of imports and twenty per cent. of the total volume of exports. Only Finnish ships were used, and in the most favourable circumstances the Petsamo route could supply only a fraction of Sweden's needs. The British authorities were not prepared to allow imports of oil apart from limited quantities for the servicing of the ships and lorries. The Ministry agreed early in August to raise no objection in principle to the importation into Finland of 22,000 tons of sheet iron via either Petsamo or Murmansk; this was needed for manufactured articles for Russia, and was not a German deficiency. But it refused to grant a navicert for 170 tons of 'virgin aluminium' for Sweden. In an attempt to reduce the scale of the German air effort, Bomber Command was attacking German alumina works vigorously, and it was known from censorship sources that Germany was pressing Norway to speed up deliveries of finished aluminium. As Norway had only one alumina plant it was considered unwise to allow alumina into areas accessible to Germany such as Sweden and Finland. The same principle was applied to lead and copper.

By August 1940 ships were sailing to Petsamo from the United Kingdom, the United States, and South America, and about 1,000 tons of goods a day were being handled. The Finnish and Swedish Governments were naturally anxious to free the traffic from any British blockade requirements which would lead to German counter-measures, and the Ministry was prepared to make concessions, subject to certain safeguards. Early in September the Ministry agreed in principle to release Finnish ships from the promise to call at a British control port as soon as a British consul, whose appointment had been accepted by Finland after some hesitation, could take up his duties at Petsamo. At the same time the Ministry had reached the point of fixing rations for the main imports into Finland, and a committee had been set up to consider the figures. A provisional allowance of 2,500 tons of oils and fats, pending settlement of a final figure, had been agreed; 15,000 tons of petroleum products a quarter were also to be allowed. The Finnish rations were, in general, only two-thirds or three-quarters of normal trade and in the case of key commodities they were still lower.

The Ministry was about to agree to release any Swedish ships sailing from Petsamo from the obligation to call at a British control port when the disquieting news came on 13th September 1940 that Sweden had agreed, under German pressure, to suspend, pending further discussions, all exports through Petsamo to the United States and other destinations. Finland had also agreed to the grant to German troops of a right of transit across Finland to Norway. The British authorities replied by suspending the issue of navicerts to and from Petsamo. During September the Germans took into Trondhjem three outward-bound Finnish vessels and refused to release them without an undertaking by the British authorities not to bring them into a control base. This was refused, and apparently the ships had to return to Petsamo. So the whole relationship of Britain to wartime Sweden had to be reconsidered, for a British refusal to reopen either the Petsamo or Gothenburg routes might throw her completely into Germany's arms. The Swedish authorities were pressing on their side for the reopening of the Gothenburg route, and put their case strongly on various occasions. Important points of general policy were involved in this question, for clearly the British could not 'have it both ways'. All European countries were now included, more or less, in the German economic system, and logically they ought to be included in the economic blockade in order to starve out the whole system. But if a country were included in the blockade as being dependent on Germany it would continue to depend on her, and the British had to ask whether they were prepared to give up the whole of Europe to the enemy.

In mid-September the Germans agreed to permit the resumption

of Swedish exports through Petsamo only if the Swedes supplied advance copies of cargo lists and agreed to cargo examination before sailing. There seemed no doubt that the Germans had discovered the clandestine interest of the United Kingdom in the Swedish steel exports. The British ministers in Stockholm and Helsinki made, however, emphatic objections to a tentative proposal from Mr. Dalton on 6th October that imports by the Petsamo route should be prohibited, and opinion in the Ministry was already turning against this course. It was felt that the establishment of German contraband control at Petsamo could scarcely be held to relieve the Ministry of the undertaking of 30th July 1940 to allow adequate imports to neutral countries for domestic consumption. It was also felt that this 'strong weapon' might be reserved for more important purposes. So on 11th October it was decided to recommence, sparingly, the granting of navicerts to Sweden and Finland. The opportunity was taken, however, to open negotiations through the Finnish minister in London for the better regulation of the Petsamo traffic, and an agreement was reached in November under which the British Government was to be allowed to maintain a system of inspectors on the Petsamo-Rovaniemi route and in various centres of Finland, and the Finnish Government was to keep the British informed as to the number of German troops crossing Finnish territory. The British also required an assurance that Finland would not increase her exports of copper and molybdenum to Germany.

The oil question aroused more fundamental issues. The right policy, and the one set out in the Lloyd report, seemed to be to force Germany to supply oil to neutral countries like Sweden who were supplying her with industrial products; to allow even limited quantities into Sweden would clearly cut right across this theory. Swedish oil companies had transported some oil in tanks from Rumania across Germany to Stettin, but during the last quarter of 1940 these supplies had fallen off. Under the Swedish-Russian agreement of May 1940 Russian oil and low-grade petrol was to be shipped to Sweden, who in return was to bring similar American products to Vladivostok. M.E.W. rather favoured this idea since it helped to keep in proper channels a trade which the British could not otherwise control. Oil could also reach Sweden through Petsamo and Gothenburg. The Ministry, appreciating Sweden's difficulties and realizing the value of maintaining Sweden's friendship, decided that it would be good tactics to use Sweden's need for oil to obtain certain counter concessions. This led in November to a dispute with the Petroleum Department, which felt that M.E.W., in breaking from the ruling of the Lloyd report, was adopting a dangerous course; the Department was curtly informed that the question of concessions was the responsibility of the Minister of Economic Warfare. The decision was

influenced by the fact that naval security considerations now seemed less urgent.

The Ministry's decision on these two questions cleared the way for an agreement with Sweden for the opening of the Gothenburg route, on terms which gave some satisfaction to both sides. One condition of the agreement was the Swedish acceptance of the Ministry's rationing policy. Hitherto the Swedes had been recalcitrant in forwarding the necessary trade and stock figures on which the quotas would be based, and there had been considerable argument about this since the summer. The United States Government, which had been expected to oppose oil imports, proved amenable, and the Ministry's proposals, which had been previously discussed with the Foreign Office, the Admiralty, and the Ministry of Shipping, were handed to the Swedes on 27th November 1940. The Swedes had agreed by 9th December.

There were four main provisions under this Gothenburg agreement, which may be summarized as follows:

1. Four ships would be allowed to pass in and out of the port each month, but no ship would be permitted to enter without a corresponding ship leaving the port. Subsequently it was decided that no restrictions should be placed on the size and tonnage of the ship. As no tankers were to be used, it was obvious that no special arrangements were made regarding oil, although subsequently it was agreed that each incoming ship should carry enough oil for its inward and outward voyage plus a certain safety margin.
2. All ships engaged in the traffic were to carry ship navicerts, follow Admiralty routing instructions, and in no circumstances submit to German contraband control. Subsequently outward-bound cargoes were allowed to fall under the Carlsson-Mounsey Agreement of 1939. Thus outgoing cargoes no longer required consular certificates of origin, but had to be covered by Swedish certificates of origin instead.
3. The agreement was not to cancel the Anglo-Swedish Shipping Agreement of May 1940, nor were the ships employed on this traffic to deprive the British of the use of any Swedish ships.
4. The Swedes were to enter into negotiations for a voluntary rationing agreement covering their imports from overseas by all routes including Vladivostok.

The securing of some measure of control over Swedish imports through Vladivostok was, in the Ministry's opinion, the principal advantage of the agreement: it would now be possible to limit Swedish imports by all overseas routes, and the Swedes were informed at the same time that there was no objection to their imports through the Persian Gulf provided that these were covered by navicerts and

did not run counter to the agreed figures. By 31st December the Ministry had prepared a schedule of goods which Sweden would be permitted to import from 1st January to 31st March 1941.

There were some initial difficulties and misunderstandings over the execution of the agreement, but by March 1941 it was working smoothly. A Swedish proposal that one ship a month should sail from Great Britain to Gothenburg was accepted. It was hoped that the plan would draw Swedish shipping from the Far East. The British authorities would, of course, have to take care that the ships used were not those which had previously been employed on British routes, and that no goods were sent that would be of much value to Germany.

Meanwhile the question of oil imports to Sweden had continued to be closely examined by the Ministry. The Gothenburg agreement was a cautious expression of British confidence in Sweden's determination to maintain her independence, and there was evidence of the Swedish Government's growing faith in its navy and coastal artillery. In February 1941, in return for Swedish co-operation with regard to exports of certain Swedish products to the United Kingdom, the Swedish authorities were permitted to import for their navy a cargo of petroleum products not exceeding 12,500 tons, and at the end of March a recommendation from the embassy in Stockholm led to the offer of a fixed oil quota for the ensuing year: Mr. Mallet had said that some of Britain's most outright supporters were now saying that the British Government was unnecessarily harsh towards Sweden. Germany began almost at once to make new difficulties by including Iceland in her blockade system, but the Ministry agreed to allow Sweden a quota of 15,000 tons of petroleum products a quarter for one year for the use of the Swedish navy and air force, subject to a satisfactory settlement of the shipping difficulties which arose from the new German action.

The effect of the inclusion of Iceland, the Farøe Islands, and adjacent waters in the German blockade on 15th April 1941 was, however, to bring the Gothenburg traffic to a virtual standstill for several months. The German authorities refused to allow Swedish ships safe conduct if they passed through the Skopen Fjord. Traffic was therefore suspended. The British Admiralty examined the possibility of allowing the ships to take alternative routes, but in the end had to maintain its insistence of their passing through the Farøe Islands channel (or of course Kirkwall if they so pleased). At the time of the German declaration there were two Swedish ships in the Farøes awaiting the two outcoming ships from Gothenburg, whose departure was delayed in turn by the German action. These ships were an embarrassment to the British since, either there or at Kirkwall, they invited German attack. The British eventually allowed the two ships

to sail to Gothenburg without waiting for the exchange vessels, and they arrived safely. It was hoped that this concession would influence favourably negotiations with the Swedes for the chartering of additional tonnage to Britain. It was understood that the Swedes would in due course, when the traffic was resumed, let out four ships before asking for further incoming vessels. In May the Swedes asked the British authorities to allow five ships to proceed from Gothenburg for the United States at their own risk. Formal permission for this was refused, and every effort was made to persuade the Swedes to abandon such a dangerous plan. But the British were anxious to get the ships out of Gothenburg, and were also anxious to maintain the negotiations for the chartering of Swedish ships, and as these depended largely on the continuance of the Gothenburg traffic it was agreed that the five ships should not be taken into Kirkwall. They duly sailed, were intercepted by British patrols, and allowed to proceed. The Swedes did not, however, repeat the experiment and the British missions continued to refuse navicerts for the journey to Gothenburg pending an acceptance of the Faröes route.

There were similar difficulties over the Petsamo traffic, but here the evidence pointed to a steady strengthening of German influence over Finland. The Ministry heard in January 1941 that the Finns were hiring their motor lorries to the Germans for the transport of nickel ore from Petsamo to Kirkenes. Transport had hitherto appeared to be the most important factor in limiting these nickel deliveries, and the Finnish authorities were accordingly warned that unless the use of these hired lorries ceased immediately the British would suspend all navicerts for tyres. Assurances were given that in future only lorries acquired from Germany would be used, and that Germany would have to make herself responsible for upkeep and for the supply of tyres, petrol, and oil. The Ministry was satisfied for the moment, and increased both the tyre and the cereal quotas. By the end of March, however, evidence of further German infiltration led the Ministry to withhold communication of the provisional schedule of quotas for the April-June quarter. After further consideration it was decided that for the moment the increase of German influence did not justify any reduction in the quotas, and these were presented to the Finnish minister in London, but with the warning that further signs of submission to Germany would lead to their reduction or suspension.

Finland, indeed, suffered from the extension of the German blockade area in April, and after the German bombing and destruction of the *Carolina Thorden*, in the Skopen Fjord, all sailings to and from Petsamo were suspended. They were, however, soon resumed, and for a time the Finnish ships followed the British routing in some cases, and the German in others. Two ships which followed the

latter course were intercepted and brought into Kirkwall. On the other hand the *Josefina Thorden*, Finland's only tanker, was attacked by German aircraft on the German route, and left a partial wreck in the Faröes. In May it became known that petroleum products imported through the British controls were being sold, contrary to the Finnish Government's undertaking, to the Petsamo Nickel Company. Then at the beginning of June German troops began to enter Finland in increasing numbers, and on 14th June instructions were given that no further ship navicerts should be granted to vessels proposing to make the voyage to Petsamo. The Finnish Government protested, but it also requested the withdrawal from the neighbourhood of the Arctic highway of the trade inspectors, and certain of the British consuls, whose presence had been authorized by the agreement of November 1940. After the outbreak of the Soviet-German war it was clear that Finland would soon be directly involved, and instructions were sent to detain all Finnish ships arriving at Commonwealth ports.

CHAPTER XX

EQUIVOCAL NEUTRAL: THE U.S.S.R.

BETWEEN the German invasions of Norway and of Russia there took place a revolution in Soviet-German relations, and it resulted, in Stalin's good time, in the closing of the greatest gap in the blockade. But the British efforts to secure Russian co-operation in economic warfare during these fourteen months were uniformly unsuccessful, and are worthy of record as evidence of the difficulties, rather than the achievements, of the Ministry. The British Government, as we have seen, had already, during the first winter of the war, experimented with two different policies in its relations with the Russian Government, and in the period which we are now considering there was a similar alternation between attempted agreement and attempted pressure. There were as a result two clearly-marked phases. (1) From June to November 1940 Sir Stafford Cripps endeavoured without success to bring about a comprehensive barter arrangement with Russia; (2) from December 1940 to 22nd June 1941 the British Government applied various forms of economic pressure to the Soviet Union, partly to cut off supplies to Germany, and partly to force the Soviet Government to come to terms with the British. These two phases will be discussed in the following two sections.

(i)

Anglo-Soviet Trade Discussions (June—November 1940)

The ending of the Soviet-Finnish war and M. Maisky's suggestion on 27th March 1940 of an Anglo-Soviet commercial agreement had already, before the fall of France, led the British Government to propose the sending of Sir Stafford Cripps to Moscow as a special trade envoy. The Soviet Government refused to receive him until the question of the embassy was settled (Sir William Seeds had been in London since January) and Sir Stafford was accordingly appointed ambassador. Apart from the general political conditions that made

Soviet co-operation against Germany so desirable there were now new factors in the economic situation which increased the importance of Russia's rôle in the war. With the rapid disappearance of the western neutrals the Siberian and Manchurian railways increased their importance for German trade; it was more desirable than ever to reduce the flow of Soviet goods to Germany, and as one of the few advantages gained by the Allies from the German victories was control of practically the world's supply of rubber, tin, and nickel it was essential that the supply of these to Russia should be adequately controlled.

The basis of German-Soviet economic relations was the commercial agreement of 11th February 1940. The planned exchanges under this agreement have already been described (pp. 322-3). The Germans recognized that the Soviet Union had promised far more than was defensible from a purely economic point of view; it does not appear, however, that this compliance was regarded by the Germans as evidence of a generous, subservient, or even an accommodating attitude on Russia's part. It was believed that the 'ever-present distrust' of the Russians was unabated, and that they were prepared to make sacrifices in order to receive in compensation those things which the Soviet Union lacked. At first sight the most surprising feature of the agreement was the provision whereby Soviet deliveries were to be made in advance of German, but this had been modified by the annoying provision, on which Stalin had insisted, for balancing the mutual deliveries every six months, according to the agreed ratio. Among the German deliveries were to be industrial products, industrial processes and installations, and war *matériel*, and the Germans knew that they could anticipate trouble if these goods, which were urgently needed by Germany herself, were not forthcoming. There was, indeed, a considerable crisis in the autumn of 1940 on this issue, and it is perhaps not a coincidence that Germany went to war with Russia when the eighteen months was nearly completed, and before the final phase of German deliveries had begun. In addition to the fixed schedules of deliveries Germany secured specific promises of help in combating the British blockade. Stalin himself promised 'generous' help in buying metals and raw materials for Germany in third countries, and facilities for transit to and from Rumania, Iran, and Afghanistan and the countries of the Far East. Schnurre noted with satisfaction on 26th February 1940, 'if we succeed in extending and expanding exports to the East in the required volume, the effects of the English blockade will be decisively weakened by the incoming raw materials'.¹

It is clear from this that far from opposing Anglo-Russian trade relations the Germans would welcome them if they provided some

¹ *N.S. Relations*, pp. 131-34.

of the supplies from third countries which Stalin had promised. Although the full extent of Russian commitments was unknown to the British Government the general character of the Nazi-Soviet relationship seems to have been correctly appraised. Sir Stafford Cripps's instructions show that there was no serious belief in the Foreign Office that the Soviet Government could be induced to reverse its present position and side with the Allies against Germany. It was assumed that Stalin's aims were first to avoid hostilities with any great power, and secondly to prolong the war between the Allies and Germany in the hope of weakening both sides; the recent German successes might, therefore, conceivably lead him to restore the balance by transferring support from the German to the Allied side, but for several reasons any such *volte face* was considered to be, at this stage, highly improbable. Stalin 'feared and respected' the Germans; in the military sphere Russia was not sufficiently well prepared to undertake, or even to risk, actual hostilities; even a gesture in the economic sphere such as the denouncing of the Soviet-German trade agreement would have little or no immediate effect on the course of the war, and would leave Russia to face unpleasant consequences in the event of a complete German victory. It seemed probable, therefore, that Stalin would, *faute de mieux*, continue to support Germany; he could console himself with the reflection that a victorious Germany, possibly not entirely stable in spite of her victory, would not necessarily attack the Soviet Union if the latter continued to afford economic advantages. Furthermore, an overwhelming German victory would lead to a collapse of the British Empire, and in particular remove the limits which the British had set to Soviet expansion in Asia. From Great Britain, on the other hand, the Soviet Union had little to gain, and nothing to fear.

Pessimistic though these views were they did not appear to make it any the less desirable that advantage should be taken of whatever *rapprochement* Russia would offer; and at this stage Sir Stafford Cripps was clearly more hopeful of results than the Foreign Office or the Ministry. He had recently visited Moscow at the invitation of the Soviet Government, and in mid-February had had a long conversation with M. Molotov, who had impressed him with the Soviet Government's desire to make a trade agreement as soon as possible with the United Kingdom. M. Molotov had not suggested that this implied any modification of the Soviet policy towards Germany but rather a wish to trade with both sides to the advantage of Russia in order to prevent an excessive monopolization of Russian imports and exports by Germany.¹ Sir Stafford's opinion in April (as it emerged from some interesting conversations with Lord Lothian in Washington) was that Russia and Germany were fundamentally antagonistic;

¹ E. Estorick, *Sir Stafford Cripps: a Biography*, pp. 221-3.

that the Soviet Government would prefer to see peace made rather than risk being drawn in, if the war continued; that except for food-stuffs and feeding-stuffs the Soviets were not likely to provide Germany with much that she required; and that the existing imports via Vladivostok were, in the main, merely replacing goods normally imported through European ports. He thought that Russia, sensitive to its national status, might, if pressed too far, retaliate by a military alliance with Germany against the Allies, and that an Allied attempt to blockade Vladivostok would produce a serious danger of war. In any case he was convinced that the checking of Russian trade with Germany and of German imports through Siberia would be much more easily achieved by negotiation.

The Ministry's aims could be fully secured only by a war-trade agreement, or by an undertaking on the part of the Soviet Government to accept the essentials of such an agreement. But during April and May 1940 the Russians made it quite clear that they were not prepared to bind themselves in this way, and would accept only a barter agreement on the lines of that concluded in the previous autumn, when it had been agreed to exchange rubber and tin from the British Empire for Russian timber. A barter agreement of this kind was considered by the War Cabinet to be useful to the British from the political point of view as a step towards a general improvement in relations; it would also no doubt be useful on supply grounds. Accordingly, as the discussions with the Soviet Government seemed to be leading nowhere, the War Cabinet decided to invite Sir Stafford Cripps to go to Moscow on an 'exploratory' mission. He agreed on 20th May and, after a discussion of plans with Lord Halifax and Mr. Dalton, asked whether he was to approach the Russians on the assumption that Britain's general attitude towards them was friendly or hostile. If the latter were the case, he did not feel that he was a suitable person to undertake the mission. Mr. Dalton replied that friendly relations were evidently desired, but the effort to secure them should not result in increasing Germany's power to wage war.

The Ministry insisted that from the economic-warfare angle the supply to Soviet Russia of important war commodities such as rubber and tin, which were badly needed by Germany, would be risky, and it was obvious that by taking Russian timber, which Germany did not want, the British would not necessarily prevent Germany from receiving the really important commodities such as petroleum, manganese and chrome ores, cotton, phosphates, flax, hemp, oilseeds, and cereals, which she was at present obtaining from Russia. The Ministry, therefore, while it did not feel able to object to a barter agreement on principle, wished it to be subject to conditions. Care should be taken to ensure that 'the quantities of dangerous com-

modities supplied to Russia were not excessive'; that guarantees were obtained against the re-export of these dangerous goods to Germany; and that these guarantees would in suitable cases cover the re-export of the goods, or any part of them, in a semi-manufactured or manufactured form. They should also cover the possibility of other, similar, goods being forwarded to Germany from existing stocks in the U.S.S.R. as a result of the arrival of these fresh imports. In return it would be desirable to secure not only the timber which was required for supply purposes, but also flax, hemp, and lubricating oil, which in addition to their supply value were of great interest to the Ministry as German deficiencies. The Soviet Government could be offered (a) any manufactures or semi-finished goods, including, where supply reasons allowed, the release of machinery already ordered by the Soviet Government in Great Britain; and (b) any reasonable quantities of such consumable goods as cocoa, coffee, and tea, if available. As the bargaining position of the government was particularly strong in the case of rubber, tin, and jute, it should be possible to press the demand for Russian goods, such as lubricating oil, which the Ministry wished to deny to Germany. The Ministry's proposals also visualized a triangular trade agreement between Sweden, Soviet Russia, and the United Kingdom, and representations to the French in favour of the release of the *Selenga* and the *Vladimir Mayakovsky*.

It was with these proposals that Sir Stafford Cripps commenced his Moscow mission. Difficulties soon appeared. The British approaches were followed by long delays; after exasperating silences the Soviet Government made a comprehensive proposal for a barter agreement on 16th October, but again lost interest and gave no answer to the prompt British response. The course of the discussions is of some interest for the light it throws on the general development of British and Russian policy, but the practical results were nil.

There was some preliminary skirmishing over the reception of the mission. The Soviet Government agreed on 4th June to Sir Stafford Cripps's appointment as ambassador, but refused at the same time to grant a visa to Professor M. M. Postan, the Ministry's Russian expert, who was to have accompanied the new ambassador to Moscow. At this point the party had reached Athens, and Professor Postan had to return to England via the Cape. A fortnight before this, on 20th May, M. Molotov had sent a note to the British Government which insisted that Russia could not subordinate questions of trade to the military requirements of countries with which she was dealing; Soviet-German trade could not be discussed, although imports from Britain would not be re-exported. The gist of this was broadcast on 21st May (no doubt to reassure the Germans) before the note reached Lord Halifax. It was not an unqualified rejection of trade discussions,

although time was to show that it left singularly little room for the satisfaction of British interests.

Sir Stafford's mission started, it is true, promisingly enough with an hour's interview with M. Molotov on 14th June. To the ambassador's assertion that the British Government wished to achieve more friendly relations with the U.S.S.R. and thought that this could best be achieved by starting on economic matters, M. Molotov replied that he was ready for this course and hoped that there would be no delays. But after this Sir Stafford's attempts to open up immediate discussions with M. Mikoyan, the Commissar for Foreign Trade, with whom he had a preliminary meeting on 15th June, proved fruitless, and M. Molotov was also not prepared, owing to 'unusual pressure of work', to receive him. On 25th June the Foreign Office came to the rescue with a personal message from the Prime Minister to M. Stalin; it was intended that this should give Stalin the occasion, if he wished to profit by it, to enlarge on the Soviet Government's intentions in face of the sudden overthrow of all military and political equilibrium in Europe. This did produce some response; Stalin received the ambassador at 6.30 on the evening of 1st July, and talked with him until 9.15. M. Molotov was present. It again appeared that the Russians were ready for trade discussions.

The early part of the conversation dealt with the general political situation, and does not directly concern us here. Stalin remarked, 'If the Prime Minister wishes to restore the old equilibrium, we cannot agree with him. On the whole I must say that however much it may be desired fully to restore the equilibrium in Europe the task will be very difficult'. This led to a denial of any intention on Russia's part 'to rule the Balkans', and both Stalin and Molotov were unresponsive to the ambassador's argument that the stabilization of the Balkans would need a lead from some major and neighbouring power which desired to bring the Balkan countries together. Stalin did not think that Germany would send troops there; her objective would be oil, and Rumania was making no difficulty now about supplies, which had increased from 1,300,000 tons in 1939 to a rate of over three millions a year. Germany, he went on to say, could not establish a hegemony over Europe without the domination of the seas; this she did not possess and could hardly hope to achieve. Europe without sea communications meant Europe without raw materials and without markets. 'These are the objective facts which preclude Germany from acquiring a dominating position in Europe; as regards the subjective wishes of Germany to dominate Europe or the world—which is the same thing—I must honestly state that to the extent to which I have had the opportunity of discussing the question with the German representative, I have not noticed any signs of such a wish for domination.' (He explained later that he was not so simple-minded

as to believe the denials of individual German leaders, but he was aware of the physical impossibility of their dominating Europe or the world, and it was this, rather than their assurances, which convinced him that they did not desire to do so.)

Although these statements were no doubt designed to justify Russia's continued propitiation of Hitler¹ they revealed a certain confidence in the strength of the Soviet position, and so kept alive on the British side the hope that the Russians would not be too circumspect to do business. Cripps therefore referred to Stalin's comment on Germany's inability to dominate the seas and said that it was for this reason that the blockade of Germany was so important, and that it was so necessary to Britain that goods should not reach Germany from any country; later the talk came round to the trade negotiations and he asked whether Anglo-Soviet relations were sufficiently good and friendly to ensure that there was no danger that any goods, supplied by Britain for Russia's internal economy, would pass to the enemy. Britain was, subject to that condition, anxious to do all in her power to supply the Soviet Union. Stalin's reply threw light on the Soviet-German trade agreement, and again seemed not unfavourable to business with England. He said that in concluding its agreement with Germany the Soviet Government had had regard to its surplus products, and not to those which it needed to import. Since the war there had been a shortage of non-ferrous metals, such as nickel and copper; there was no natural rubber in the Soviet Union, little tin, and machines and machine tools had been urgently required. All that the Soviet Government had undertaken therefore was to supply Germany with a part of—but only a part of—the non-ferrous metals needed for fulfilling Soviet orders placed in Germany. Thus, for instance, the Soviet Union had recently had delivered a cruiser which it had bought in Germany in an incomplete state of construction, and also some artillery, a number of three-axle lorries, and certain aircraft. Some of the non-ferrous metal needed in the manufacture of these goods had been sent from Russia to Germany, and further supplies of non-ferrous metals would be required to fulfil future Soviet orders. 'It is thus clear that a certain part of the non-ferrous metals we import will be sent to Germany for use in goods manufactured to our orders. Should this circumstance constitute an impediment in the way of a trade agreement with England, I must say that such an agreement will not be achieved.' Sir Stafford was able to say that he did not think that this should prove an 'overriding difficulty' in the way of trade negotiations, and he hoped that these would pro-

¹ On 13th July, Molotov gave an account of the interview to the German ambassador which agreed in its essentials with Cripps's report, but omitted Stalin's franker comments on the Germans: *N.S. Relations*, p. 166. Mr. Churchill prints his letter to Stalin of 25th June, but says merely that it was followed by 'an interview of a formal and frigid character with M. Stalin' (*Their Finest Hour*, pp. 119-20).

ceed as soon as M. Mikoyan was free. 'To this M. Stalin merely intimated his assent.'

The talk, though frank, had been friendly enough; the ambassador believed that the trade discussions would soon begin. In fact, however, they did not. July went by without any move from the Russian side; two requests by Sir Stafford Cripps to Molotov for interviews (on the 18th and 26th) were without result. On his suggestion Lord Halifax told M. Maisky on 2nd August that unless the ambassador could make contact with M. Molotov no progress could be expected. Sir Stafford did secure a further interview on the evening of 7th August. M. Molotov insisted that although there was a difference in the attitude of the Soviet Union towards Germany and Great Britain this arose out of the different circumstances of the two belligerents and lay within the limits of the Soviet's neutrality; he admitted the importance of the British proposals, but said that the recent action of the British Government in blocking the assets of the Baltic states was an obstacle to improved relations.¹ (The recent British defeats were no doubt a much more formidable obstacle.) Another fortnight went by, and then on 22nd August M. Mikoyan at last made a specific proposal. This was for a limited barter deal of 5,000 tons of flax against rubber, the transaction to be handled by an Iranian firm and delivery to be effected through Iran. The ambassador received the proposal coolly, and said that the circumstances had probably altered during the ten weeks' delay, and he doubted whether the British Government would be attracted by a limited deal of this kind as they wished for an all-in barter agreement. Mikoyan insisted throughout, evidently under instructions, that in view of the British Government's detention of Baltic gold and shipping, there was no guarantee that a general agreement would not be followed by the seizure of other goods 'in an equally illegal manner'.

During the previous weeks the supply to Germany by Russia of some imported non-ferrous metals for processing had not been regarded in London as an insuperable obstacle to a trade agreement. Tin was the only non-ferrous metal which was to be supplied from British sources under the British barter proposals and it was thought improbable that the quantities which Russia would send to Germany for manufacture and re-export to Russia would be significant. It was recognized that nickel and copper might also have to be considered if a complete refusal to supply seemed likely to jeopardize the success of the negotiations, and that Russia might wish to export other commodities, such as rubber. It was hoped that the recent develop-

¹ Soviet troops entered Lithuania on 15th June, and Latvia and Estonia on 17th June. New parliaments voted for the incorporation of the countries concerned in the U.S.S.R. on 21st July. An Order of the British Treasury on 20th July prohibited the transfer to the Soviet State Bank of the gold of the Baltic State Banks in the custody of the Bank of England. For some further light on Cripps's views see Estorick, pp. 258-61.

ments over Petsamo nickel would reduce the Russian demand for Canadian nickel (see p. 624). A telegram to Moscow from the Foreign Office on 16th July admitted that it would be impracticable to devise any means of guaranteeing that substantial amounts of Russian exports would not remain in Germany, but that it seemed, on the whole, unlikely that the Russians would, in present circumstances, willingly act as a channel for German supplies. On the following day Sir Stafford was authorized to indicate in general terms the British Government's willingness to supply where possible the principal commodities in question. From the economic-warfare angle therefore M. Mikoyan's limited offer of 22nd August was unattractive not only because rubber was a dangerous commodity from the blockade point of view but also because his remarks made it so abundantly evident that the proposal was intended to frustrate, rather than facilitate, wider discussions. On the 23rd leading articles in the Soviet press on the anniversary of the Soviet-German pact violently attacked the 'warmongering western democracies' and their attempts to drive a wedge between Germany and the U.S.S.R.; *Izvestiya* said explicitly that under the Soviet-German economic agreements Germany was receiving those raw materials which she needed as a result of the British blockade, and would continue to receive 'substantial assistance in the solution of the economic tasks which lie before her'.

The Ministry was disappointed rather than surprised at this halting progress; after the tension of the last twelve months and the Soviet determination not to fall out with Germany it was not to be expected that the Russians would exactly throw themselves into British arms. And a German invasion and conquest of the island might still be an early possibility, for all they knew. All this was obvious enough; but the line taken by the Russians on specific issues was harder to assess. It may well be that at this particular point, in the third week of August, the forthcoming trade discussions with Germany supplied the immediate reason for the tone of Mikoyan's conversation and the *Izvestiya* attacks. The Ministry does not appear to have attached any particular significance to these discussions. Information from the British embassy merely stated that Dr. Schnurre, the German delegate, would deal with various technical questions of book-keeping, clearing of balances, etc., and that the German embassy would negotiate an extension of Russian trade with Germany.

A memorandum by Schnurre of 28th September 1940 shows, however, that something of a crisis had arisen in Soviet-German economic relations. The negotiations in Moscow, which continued from 24th August to 12th September, took place at the request of the Russians, for the express purpose of reviewing the status of the deliveries from both sides under the Soviet-German commercial treaty.

According to figures apparently agreed by both parties the German deliveries for the first half-year had fallen short of the treaty commitment by roughly 73 million reichsmarks. The Russians demanded an acceleration of German deliveries to make up the deficit, and said that they would suspend their exports temporarily until the Germans were able to make arrangements to meet the required ratio of deliveries. The negotiations were adjourned on 12th September in order that the position could be examined in Berlin. Schnurre's memorandum shows that since the new commercial treaties had come into effect Russia had supplied over 200 million reichsmarks of raw materials, especially petroleum, cotton, precious and non-ferrous metals, and about 100 million reichsmarks of grain. Russia had so far received in compensation goods to the value of only about 150 million reichsmarks. For the coming half-year German commitments were, in addition to the undelivered balance of 73 million reichsmarks: to 11th February 1941, 233 million reichsmarks; to 11th May 1941, 311 million reichsmarks. The Russian Government had (apparently just after the adjournment) cancelled all long-range projects under the treaty of February 1940, which meant that they were restricting themselves to goods which would benefit their economy, and especially their military rearmament, during the next eight or ten months.

Schnurre's comments show that the execution of Germany's side of the programme was in fact prevented by a recent directive from Goering to avoid shipments which would directly or indirectly strengthen Russia's war potential. But in any case the export to Russia of the goods principally involved—such as machinery, rolling mill products, and coal—would be impossible if the existing German armaments programme were maintained. Schnurre in alarm pointed out that the Russian deliveries had hitherto been a substantial prop to the German war economy, and that a suspension or serious reduction of these deliveries would be particularly serious in its effect on grain supplies. Russia had supplied to date a million tons, she was the only country with a good grain harvest, and the German grain reserve would be used up in the current crop year. He pointed out also that Germany's sole economic connection with Iran, Afghanistan, Manchukuo, Japan, and even South America was the route across Russia, which was being used to an increasing extent for German raw material imports. The Ministers of Food and Economic Affairs, and the High Command of the Armed Forces, had accordingly asked the Foreign Ministry 'to obtain from the Führer another decision regarding the continuation of trade with the Soviet Union'.¹

Apart, therefore, from the general Soviet determination not to fall out with Germany there was a more immediate problem: to secure

¹ *N.S. Relations*, pp. 199-201.

Russia's equivalent under the commercial agreements with Germany and to avoid anything which might provide an excuse for backsliding on Germany's part. Schnurre's memorandum does not appear to have had any immediate result; in further discussions between Schnurre and Mikoyan at the beginning of November Mikoyan complained 'in a tone of obvious annoyance' that Germany was not willing to undertake the delivery of war *matériel* desired by Russia, although it was being delivered to Finland and other countries. Schnurre noted that this was the first time that German deliveries of arms to Finland had been mentioned by the Soviet authorities. Shortly after this Molotov visited Berlin, and it was not until 10th January 1941 that a further German-Soviet commercial agreement was reached.¹

We can only guess at the views of the Russian Government as to Germany's intentions at this stage; it does not appear from the evidence at present available that a German attack was considered very likely in the immediate future, and it may well be that in the economic sphere it was its anxiety to avoid any jeopardizing of the delayed German supplies, rather than desire to avoid the appearance of co-operation with Britain, which explains the indifference of the Russian authorities to the British trade proposals. In the existing circumstances the most that the British Government could hope for was a limited advance which would surmount the preliminary barriers of genuine mistrust and so open the way for fuller co-operation when the time came—that is to say, when Russia and Germany quarrelled.

The government departments in London during the remaining months of the year spent a good deal of time in the fruitless discussion of ways and means of improving relations with the Russians, and of the possibility of concessions on the questions of Baltic gold and shipping, which the British Government had held since the Russian occupation. There was no question at this stage of a *de jure* recognition of Russian sovereignty, but the Foreign Office was prepared to negotiate a surrender of the retained gold and ships in exchange for compensation for the loss of British property in the Baltic states. Sir Stafford on 8th August strongly advocated an attempt to secure better Anglo-Soviet relations by a policy which would demand 'some sacrifice and a thoroughness equal to that of Germany'. He put forward a comprehensive programme including the transfer of Baltic gold and shipping, a non-aggression pact, free access to surplus Soviet commodities, and the same facilities for British subjects and diplomatists as were enjoyed by Germany. The more limited Foreign Office plan was approved by the War Cabinet on 13th August, subject to United States approval. The Ministry was strongly opposed to the Foreign Office plan: the main activity of its Enemy Trans-

¹ *Ibid.*, pp. 217, 318.

actions Department during the previous two months had been its support of the blocking of French and other assets in the United States, and the supplying of the embassy in Washington with information regarding possible abuses of the American regulations. The United States Government, perhaps in an excess of zeal, had frozen the balances of the Baltic states for the same reason that it had frozen the balances of enemy-occupied territories, namely that there was no certainty of their being operated by their rightful owners, and it probably believed that in this extension of the freezing policy it was helping the United Kingdom. Separate British negotiations on the Baltic issue might, therefore, very well lead the Americans to doubt Britain's support for a comprehensive freezing policy. The British embassy in Washington pointed out on 28th August that the United States Government had recently rejected a Russian protest against its extension of the freezing order; the American freezing policy in general was based on moral as well as juridical grounds; the proposed British action would cause 'considerable embarrassment' and create a precedent which the Vichy Government would find useful. A few days later informal soundings in the State Department made it clear that the United States officials had no intention of relaxing their own freezing arrangements, and thought that the British Government was deluding itself if it believed that by starting discussions in Moscow on a number of detailed questions it would eventually be able to conclude a comprehensive agreement. This message was really decisive, and on 10th September Lord Halifax told M. Maisky that the idea of a deal must be given up unless by any chance the Soviet Government was willing to renounce its claim to the assets in return for the abandonment of the British claim to the confiscated property. Otherwise there was no alternative to putting the matter into cold storage for the duration of the war, a course which should create no obstacle to the development of Anglo-Soviet relations in other respects and in particular to negotiations for a trade agreement.

There was, in practice, little fundamental difference of opinion in London as to Russia's general attitude towards the belligerents; it was agreed that the Russians would not make heavy weather over the Baltic question if in so doing they sacrificed greater advantages. It was noticeable that the Americans, in spite of their strong line over the Baltic, had just secured a renewal on satisfactory terms of their trade agreement with the Soviet Government; but the Baltic assets in the United States were small, and the Soviet-American commercial agreement involved some \$60 millions. The United States was, moreover, Russia's only source of copper and her most important source of machine tools. Britain on the other hand had little substantial to offer apart from a few thousand tons of rubber. On the question of procedure the Ministry's view was that if the Baltic assets were to be

released, in form or in fact, compensation should be sought not in the form of payments to British property-owners but in economic or political concessions such as the proposed barter deal. This seemed the more advantageous course from the political and economic point of view and easier to defend in the United States.

Sir Stafford Cripps's discussions in Moscow, particularly with M. Vyshinski¹ and M. Mikoyan, during September and October, did not suggest that the deadlock on the Baltic question would be a bar to improved trade relations. On 20th September Vyshinski was much more friendly and forthcoming than in recent discussions; he seemed anxious that the trade discussions should be reopened, and the ambassador believed that British resistance to Germany was beginning to have its effect on the Soviet Government's attitude. He thought that it would be unwise to appear too forthcoming about the rubber-flax barter suggestion, as something more valuable might be achieved by waiting a little longer. Accordingly on 12th October he asked the Foreign Office for a revised version of the barter proposals, and suggested that the British should offer rubber (25,000 tons), tin (8,000 tons), cocoa (50,000 tons), jute (20,000 tons), tea (4,000 tons), and merino wool (10,000 tons), and should ask from the Soviet Government flax (25,000 tons), true hemp (5,000 tons), and lubricating oil (50,000 tons). This exchange, if carried out, would leave a balance owing to the British, which he suggested would have to be met either by dollar payments or larger exports from Russia. On 16th October M. Mikoyan suggested that though a trade agreement would be unsuitable a 'group barter' would be desirable, and proposed that the Soviet Government should supply, via the Trans-Iranian railway, flax, lubricating oil, timber, and chrome ore, and perhaps rifles, but not aeroplanes; commodities which the Soviet Government wanted in return were rubber, jute, wool, and tin. This display of interest in the possibility of trade with Britain just at this point may very well have been due to Soviet concern with the unsatisfactory state of German deliveries. M. Mikoyan made it very clear that his government was afraid of any publicity regarding an 'agreement' at that moment, and himself suggested the term 'group barter': a distinction which reflected the familiar Soviet assumption that a trade agreement would be a recognition of the 'blockade' and a restriction of its right as a neutral to trade freely with all. The Molotov visit to Berlin, 12th-14th November, and the curious state of suspended—but at the moment not visibly deteriorating—amiability which followed, together with the commencement of negotiation for a new Soviet-German agreement, presumably decided the Soviet Government not to continue the trade talks with Sir Stafford

¹ Appointed Deputy-Commissar for Foreign Affairs on 8th September 1940.

Cripps any further, and accordingly another period of silence followed the conversation of 16th October.

The hurried preparation of fresh economic proposals by the government departments in London was, therefore, once more fruitless. None of them as it happened looked on the prospect of success very hopefully. The British proposals, telegraphed to Moscow on 18th October, were the same as the ambassador's, except for one or two changes. It was not considered advisable in the absence of a full war-trade agreement to supply more than 4,500 tons of tin in the first instance; Russia was to be asked to supply 50,000 tons of chrome, and there was some interest in the supply of 100,000 rifles, providing that the type was suitable, and ammunition up to a thousand rounds a rifle available. The offer was conditional on an undertaking that goods supplied by Britain would be for consumption by the U.S.S.R., and would not be re-exported. The main interest of the deal from the economic-warfare angle lay in the hope that large pre-emptive purchases of chrome and lubricating oils could be made and that the foundations might be laid for a war-trade agreement. But it seemed unlikely that the Soviet Government would, even in exchange for rubber and tin, release key commodities in quantities capable of hurting Germany. Sir Stafford Cripps embodied the British economic proposals in a note to M. Mikoyan dated 20th October, and some supplementary suggestions were made during the next few days. No reply was received. The economic proposals formed part of a general draft agreement embracing a British request for a Soviet neutrality as benevolent as that shown towards Germany, and Sir Stafford Cripps gave a summary of the proposed provisions of this agreement to M. Vyshinski on 22nd October. On 13th November Sir Stafford advised the Ministry to hold up or refuse navicert applications in respect of German deficiency commodities whose ostensible ultimate destination was the Soviet Union; on 19th November he asked the Foreign Office for permission to withdraw the economic proposals altogether at any time that he felt that it was wise to do so.

Six months of direct, but frustrated, contact with the Russians had greatly dimmed his hopes of Anglo-Soviet agreement. Now he thought that, while there should be no display of impatience or irritation, the British should not at this stage appear helpful or forthcoming. 'Having received no encouragement whatever as regards either our political or our commercial proposals, we should at all costs avoid the appearance of running after the Soviet Government (which would only be interpreted as weakness) and should await advances from them.' The Ministry agreed to hold up the grant of navicerts for the time being, but the Foreign Office was not prepared to give the ambassador authority to withdraw the trade proposals, fearing apparently public Russian accusations of British insincerity.

The Ministry felt that it would probably have been wiser to allow the ambassador the tactical freedom that he desired, but as the issue was considered to be primarily a political one it did not press its objections. On the request of the Foreign Office Sir Stafford sent on 8th December a draft of the letter which he proposed to send to Mikoyan withdrawing the trade offer. This gave an account of the negotiations which he thought would provide a reasoned answer to any adverse criticism which the Soviet Government might attempt to inspire, and he added that he 'did not think that they would dare to make the attempt'. The Foreign Office liked this letter even less than the original proposal, and its attempt to water it down drew from Sir Stafford the prompt objection that it had definitely burked the question as to who was responsible for the failure. 'Invariable unwillingness to state frankly our view of the situation will merely impress the Soviet Government with our febleness and will encourage them to try and get what they can out of us without giving anything.'

The hesitations of the Foreign Office were increased by several faint indications during December that the Soviet Government did not wish to lose contact with the British. Sir Stafford Cripps reported that Soviet-German economic relations did not seem to be developing very smoothly; the Molotov visit to Berlin did not appear to have produced any strengthening of Soviet-German political ties; M. Maisky, in conversation with Mr. R. A. Butler on 27th November, had made the curious comment that the recent British proposals had no 'substance' in them, and that, living as they now were 'in the jungle', 'drawing room' language was not enough. In a conversation with some officials of the Ministry on 26th November Mr. Rothstein, head of the Tass Agency, revealed a fairly extensive knowledge of the proposed barter deal, and treated the resumption of negotiations, if not as a probability, at least as a fairly immediate possibility. But Sir Stafford was convinced that this was merely a move 'to keep us on a string' and 'await their pleasure'. 'We must impress on them that unless there is to be real reciprocity we are not going to play . . . I regard the "setting of the stage" as the function of the Soviet Government now, we having done more than our share of scene-shifting.'

The negotiations in fact were not resumed. In January 1941 a further Soviet-German economic agreement was concluded, and this presumably made the barter deal with Britain less urgent, or less expedient, in Soviet eyes. When Mr. Eden succeeded Lord Halifax in December he authorized the ambassador, on 28th December, to withdraw the proposals, but at the same time he sent a personal telegram saying that he would not wish to start his tenure of office by taking a line which might lead to a quarrel with the Soviet Government, and one which might in the circumstances look like a

new policy towards the Soviet Union. The ambassador agreed, and took no action for some weeks. Finally on 21st February, after consultation with the Foreign Office, he sent a short letter to M. Mikoyan, saying that as four months had elapsed since the British offer of 20th October, and as it was obviously impossible to keep the offer open under the present changing conditions, the proposals must be considered out of date. If, however, the Soviet Government wished at any time to put forward definite proposals the British would be willing to consider them 'as favourably as may be consistent with their trade commitments to other countries and their general economic policy at that time'.

(ii)

The Trans-Siberian Leak

With the fading of hopes of a limitation of German supplies by negotiation the alternative policy of limitation by contraband control and similar means was attempted. In the absence of contraband control in the Pacific, applications for navicerts for Russia were, it is true, very few, and purely voluntary. Still, interception was a minor irritant which had bargaining value and some psychological importance as a demonstration of Allied determination. Rather greater hopes were placed on co-operation with the United States in a closer control of exports of raw materials to neutral destinations. Steps in both these directions had been sketched by the Ministry at the end of November in reply to Sir Stafford Cripps's suggestion of 13th November, and in January 1941 the ambassador recommended a general stiffening of policy along these lines. On the Baltic question too, the British Government had a considerable bargaining weapon of which, in the ambassador's view, the Foreign Office was making a very poor use. On 2nd February he telegraphed to say that as matters stood it would be useless to do anything with the Soviet Government until developments in the various theatres of war or Anglo-American economic pressure had compelled it to seek some closer relations with Britain; he thought too that in view of the very favourable recent settlement of Baltic questions with Germany and Sweden the Soviet Government would 'hang on as long as possible in the hope of forcing a settlement on us as well'. On the other hand he was convinced that while the issue of the war remained doubtful 'they will not wish to break altogether'.

The terms of the Soviet-German trade agreement of 10th January 1941 were unknown to the Ministry. It was clear, however, from official announcements, that it was accompanied by the fixing of the

Soviet-German frontier in relation to Lithuania, and that compensation to Germany for a surrender of territory was involved. It was also known that the agreement was to be in force for one year. Particulars of the agreement which have become available since the war show that the Soviet Government undertook to pay 7,500,000 gold dollars or 31,500,000 reichsmarks to Germany for a strip of Lithuanian territory which Germany had earmarked under the Secret Supplementary Protocol of 28th September 1939, and that this sum was to be paid in the following manner: one-eighth (3,937,500 reichsmarks) in non-ferrous metal deliveries within three months, and the remaining seven-eighths in gold by deduction from German gold payments which Germany was to make by 11th February 1941 under the trade agreement. In this way Germany had, by a cession of territory, cleared part of the deliveries due to Russia under the old agreement. Russia undertook as before to deliver a wide range of goods, and the Germans were particularly pleased to secure, after a hard struggle, a grain contract under which Russia was to supply 1·4 million tons of grain by September 1941. Early in April 1941 Dr. Schnurre noted that the conclusion of the individual commercial contracts had, as usual, caused great difficulty, and that there had been a 'noticeable restraint' in the carrying-out of Soviet deliveries at first, probably attributable in part to the cooling-off of political relations with the Reich. Imports of raw materials from the U.S.S.R. had been in consequence relatively slight in January (17 million reichsmarks) and in February (11 million reichsmarks), although these had included 200,000 tons of Bessarabian grain. In March, however, deliveries had risen 'by leaps and bounds', especially in grain, petroleum, manganese ore, and the non-ferrous and precious metals. Germany on the other hand had to deliver in the first quarter of the year only the balances due on the first year of the contract. Schnurre noted that it would not be possible for Germany to carry out her later deliveries owing to 'a shortage of labour and priority of the military programmes'.¹

The Ministry had what turned out to be very accurate information about Soviet deliveries to Germany. They had also made a close and continuous study of the problems arising from the Trans-Siberian traffic, and it will be convenient at this point to review developments on these routes up to the beginning of 1941.

After the German victories in the summer the only remaining all-sea route by which contraband might reach Germany from the Far East had been by Japanese steamer to Lisbon. This route, too, was closed in August 1940 when the Nippon Yusen Kaisha Line announced that sailings would be temporarily suspended beyond Bombay. After this the Trans-Siberian railway became virtually the

¹ *N.S. Relations*, p. 318.

sole channel of supplies to Germany from the Pacific region. It became known during 1940 that most of the contraband consigned to Germany passed through Dairen into Manchukuo and thence through Manchouli to join the main Trans-Siberian line near Chita. Vladivostok, although popularly associated with this traffic, was chiefly important from the economic-warfare angle because it enabled the Soviet Government to import from the Americas commodities like cotton in order to replace corresponding exports of Russian products to Germany. In February 1940 the Russians had undertaken to place at the disposal of the Germans at Manchouli railway trucks capable of carrying 1,000 tons a day. Later reports, however, which the Ministry accepted as reliable, showed that down to November 1940 the average daily provision did not exceed 800 tons. Although an exact statistical measurement of the resulting traffic to Germany was impossible the Ministry's approximate estimate in January 1941, based on the pre-war capacity of the railway, the competing claims of Russian internal traffic, the supply of locomotives and trucks, and reports of individual loadings, was that not more than from 150,000 to 200,000 tons of commodities in all could have reached Germany during 1940, and that of these about 100,000 tons appeared to consist of soya beans, fish oil, skins and bristles, and other Chinese and Manchukuoan products. These were rough estimates, but they were sufficient to establish the important general point that while congestion on the line was chronic and the total space available to the Germans small, it was large enough to meet their urgent requirements of imported commodities such as copper, rubber, and tin. Moreover, as the capacity allotted to the enemy was so small in relation to the total capacity of the line (perhaps six to eight million tons a year of through traffic) it followed that the Russians could double or even treble it without seriously adding to the existing congestion. Furthermore, congestion did not prevent, and was in fact relieved by, the import of enemy-deficiency commodities to replace exports from the Soviet Union to Germany.

It was this last possibility which seemed to provide the most urgent reason for a control of the route. The Soviet Union had, for example, imported 80,000 tons of copper between September 1939 and March 1940, a rate of import double that of the corresponding pre-war period. These shipments had then been interrupted by the detention of the *Selenga* and *Mayakovsky*. In January 1941 she was known to be importing cotton at an unusually high rate, and she was purchasing very large quantities of leather, hides, and wool from South America. Between mid-October and the end of December 1940 she had imported 24,786 tons of cotton from North and South America via Vladivostok, and had exported to Germany in the same period about 70,000 tons. She had entered into further commitments for 1941 and

had also large commitments to supply cotton to Sweden, Hungary, Switzerland, Yugoslavia, Bulgaria, and Slovakia. The quantities involved were very much larger than before the war and could not be provided without imports from America.

It was known that the quantities of such commodities as rubber, tin, and nickel consigned to Germany had been small in 1940; perhaps 3,000 tons of rubber, and a few hundred tons of tin.¹ But this was because traffic and supply had not yet been properly organized and the Japanese and Germans had not yet had time, during the second half of 1940, to exploit to the full the possibilities open to them in Indo-China, the Philippines, and South America. At the beginning of October 1940 a Russian delegation had visited Berlin to discuss railway problems and was reported to have promised to increase the allotment of wagons to carry goods from Manchouli to Germany from fifty to 110 a day. During December the average daily loadings for Germany had risen to 1,800 tons (about 120 wagons), although for the first half of January 1941 the daily average had dropped to only sixty-eight wagons, or about 1,020 tons. It seemed probable, however, to the Ministry that a rate of about 100 wagons, or 1,500 tons, a day from Manchouli would be maintained and to this had to be added the small but useful traffic to Germany from Vladivostok via Khabarovsk—according to a very reliable source this was believed to have averaged 200 tons a day between September 1940 and January 1941. Broadly speaking, then, the annual tonnage passing to Germany by the Trans-Siberian route in 1941 would be 600,000 tons, about treble that for 1940.²

The various measures aimed at closing the Far Eastern leak have, for the most part, been described elsewhere. As we have seen, contraband control was not possible in the Western Pacific north of Hong Kong owing to Allied naval weakness. Pre-emption also was impracticable at this period of the war. The efforts of the Butler Committee during the winter to control supplies at source from the Americas and from Allied sources have been summarized in Chapter XIV. We have seen that the specific question of Russian imports was raised in representations to the State Department on 9th December 1940, when it was known that a Swedish ship, the *Ecuador*, was loading cotton for Russia at Galveston in Texas. The British Government wished to establish an effective system of contraband control in the Caribbean and hoped that the United States Government would control exports from the States by export licensing and other devices; but the

¹ According to the official Soviet figures (see Appendix I) the quantities for 1940 were: semi-manufactured rubber, 338; rubber wares, 1,013; rubber, 3,199; tin ore, 587; tin, 171; nickel, nil (metric tons).

The figures quoted in this and the preceding paragraph are from the contemporary estimates of the Russian experts in the Ministry. They can be compared with the official Soviet figures (Appendix III).

Caribbean ban was not relaxed, and the State Department's suggestion of Clipperton Island as a contraband-control base did not provide a solution. In spite of further representations the United States authorities continued for some months to question the seriousness of the leak, and to fight shy of thoroughgoing restrictions on American exports to Russia or Japan (*cf.* Chapter XIV). The restriction of exports from Commonwealth, Dominion, and Netherlands sources made better progress, and although it was not complete the Netherlands and British Empire countries had reached agreement by March 1941 on a comprehensive policy of pressure on the Soviet Union, whereby the export thither of all the principal raw materials produced in Empire countries and the Netherlands East Indies was totally prohibited. An exception was made, however, in the case of tea, coffee, sugar, and quinine, the export of which was to be allowed from both empires within the limits of normal trade.

A number of cases of interception and attempted interception illustrate the Ministry's attitude towards various commodities. Cotton was, at the turn of the year, the most serious problem. A Greek ship, the *Kastor*, under charter to Amtorg, sailed from Galveston on 17th December 1940 with a cargo of 24,000 bales (about 5,334 tons) of cotton and 150 tons of oilfield machinery for the Russian Government. The ship was one of several carrying cotton from America to Vladivostok which had been considered recently by the Contraband Committee. The case for seizure of the cotton on statistical grounds was strong, and the Greek Government and British embassies and departments concerned had no objection. As the ship had received instructions from the Greek shipping committee to call at Comox, British Columbia, the Canadian Government was asked to detain the cargo with a view to seizure. However, the master of the ship appears to have successfully double-crossed the British. He did not, after all, proceed to Comox; at the end of December it was known that he was proceeding instead to Honolulu *en route* for Vladivostok. Nothing could be done, as the Admiralty had to say that the interception of the vessel was a physical impossibility. The Ministry had not intended to detain the oil-drilling equipment. It would have been difficult to establish a strong contraband case for the seizure of machinery which was not itself re-exported to Germany but merely served a branch of industry which produced goods for the enemy. It was also unlikely that the seizure of the machinery would affect oil exports, in view of their relatively small quantity (500,000 tons a year, or one-sixtieth of Russia's total production).

It was known that Amtorg was doing its best to frustrate the British plans, and in the case of another ship had offered the captain \$500 to get the vessel to Vladivostok as quickly as possible. However, several successful interceptions took place. The s.s. *Corinthiakos*, a

Greek vessel which sailed from Buenos Aires for Vladivostok on 13th December 1940 with a cargo including 4,300 tons of hides and 384 tons of wool, put into Port Stanley, and on 26th December the Contraband Committee decided that there were sufficient grounds for seizing two consignments of hides of 1,802 tons and 1,239 tons, and a consignment of 105 tons of sole leather, each consigned by different firms to the U.S.S.R. State Bank for the account of Rasno-export. The decision was based primarily on consignor grounds, but was influenced by the known interest of Bata, Zlin in the traffic of South American hides to the U.S.S.R. On 24th January 1941 M. Maisky protested to the Foreign Office and to Mr. Dalton about the seizure in a note which claimed that, apart from some wool consigned to Sweden, all the goods loaded in the vessel were intended exclusively for use in the U.S.S.R. In his reply Mr. Dalton said that the seizure was effected in the normal exercise of Britain's belligerent rights, and pointed out that the ambassador's letter contained no assurance that the Soviet Government would not release to the enemy equivalent goods from its own stocks, or from domestic production. Rather unexpectedly Mr. Dalton received, on 14th February, a written assurance from M. Maisky that similar goods would not be exported 'as such commodities are not being exported by the U.S.S.R.'. Similar guarantees against re-export were received in the case of the s.s. *Crown City*, held at Hong Kong early in February with 1,025 bales of manila hemp from Manila for Rasnoimport, and the s.s. *Asamu Maru*, with a consignment of manila hemp of similar origin and destination.

The diversion in April of two British ships, the *Loch Katrine* and the *Loch Monar*, illustrates another aspect of Allied policy. These Royal Mail ships sailed from Cristobal for San Francisco with cargoes of 570 and 370 tons of coffee respectively, in transshipment to Russia. It will be remembered that it was not the Allied intention to extend the policy of pressure on Russia to tea, sugar, or coffee, and British producers were being allowed to sell some of these commodities to the U.S.S.R. The Ministry's chief concern in this case was to prevent British ships from co-operating in the Soviet shipping arrangements in the Pacific. The agent of the Royal Mail Lines in Cristobal had been warned by the British representative at Panama that the Ministry would much prefer that the ships should take some other cargo which was not to be transhipped for the Far East, but the ships had, nevertheless, sailed with the coffee. This might have created great difficulties in the Ministry's relations with the Moore McCormack and Grace Lines, who were being constantly urged to refuse cargoes of this kind. It was decided therefore that the *Loch Katrine* should miss out all ports in the west coast of the United States and proceed direct to Vancouver. The *Loch Monar* had to put into Los

Angeles for bunkers, but afterwards she too proceeded to Vancouver without going into San Francisco. On 14th May there came the inevitable protest from M. Maisky, and the inevitable reply from the Foreign Office on 21st May: the consignors were known to have commercial relations with the enemy, and in the absence of a clear undertaking of non-re-export from the Soviet Government or of guarantees which could be provided by a war-trade agreement, there appeared to be a *prima facie* case of enemy destination. On 31st May M. Maisky gave the customary assurance that the coffee was not intended for use in any other country than the U.S.S.R.

During May the U.S. authorities began to co-operate more actively in British pressure on Russia; one step of considerable importance in this connection was the extension of the United States export-licensing provisions as from 5th May to cover all goods normally subject to licence which entered the United States in transit to a third country. The first case of a refusal of export licences for transit cargo was in respect of 3,000 tons of wool and 100 tons of leather bought by the Soviet Government in Argentina. This cargo had been recently loaded there by a ship of the Axel Johnson line, the s.s. *Colombia*. In April this Swedish company had applied for five navicerts for goods consigned from the United States to Vladivostok, and some of these—for cocoa beans, rags, and tinplate—had been refused. Later it had been decided by the Contraband Committee that the line should be told that as there was no navicert system in force in the Pacific it should instead give the Ministry advance information of all shipments to Russia and Sweden. The Ministry had reason to think, however, that in the case of the *Colombia* its recommendation not to ship the cargo would be ignored, and accordingly it was very satisfied with the American action.

But it must be remembered that throughout these early months of 1941 the British Government never lost sight of the possibility of eventual Anglo-Russian collaboration against Germany, and the various economic-warfare pressures were applied with this end in view. Thus a plan was discussed in April for cancelling the reinsurance of Russian cargoes on the London market, but was abandoned when Sir Stafford Cripps said that he thought it an unfortunate moment to start a new kind of pressure on the U.S.S.R. The two aims of British economic policy towards Russia—the perfecting of the blockade against Germany and the exercise of all possible pressure on the Soviet Government to come to some useful war-trade or barter agreement—were pursued as vigorously as circumstances permitted, but on the very definite assumption that a ‘firm’ attitude would have bargaining value, and would be accepted as such provided that Russian susceptibilities (whose very existence was doubted in some quarters) were respected. ‘It is vitally important in public especially

and (except in reply to Soviet complaint) in private that our attitude should be non-committal but bland', wrote Sir Stafford Cripps on 20th February. The possibility of a German attack on Russia began to be taken seriously by the British Government as early as February 1941, and had to be borne in mind when any pressure was applied; until almost the last moment it seemed possible that Russia would offer, and Germany accept, some more extensive economic agreement, but it was certainly not to the interest of the British Government to apply its own technique of persuasion so ruthlessly or offensively as to rule out a speedy *rapprochement* if the occasion arose. In all this the British policy was not essentially different from that adopted towards the smaller neutrals, although the exceptional position of Russia gave it a unique importance.

The various attempts at economic pressure between January and May 1941 were, therefore, accompanied by a close study of Soviet diplomacy in relation to Germany and the Balkans, and by an assumption that the time was fast approaching when the Soviet Government would have to commit itself a great deal further than had hitherto been necessary. After a visit to Turkey Sir Stafford Cripps gave M. Vyshinski on 6th March an account of his impressions, spoke of the probability of German action in the Balkans and the alternative possibility of an attack on Russia, and asked whether the British Government could assist in overcoming any misunderstandings between Ankara and Moscow. Just at this moment the Ministry was considering reports from Moscow and Chungking that M. Mikoyan had asked the Chinese ambassador to secure for Russian use 25,000 tons of rubber, which he suggested should be purchased from the Netherlands East Indies. He had no objection to the matter being mentioned to the British and United States Governments, either before or after the deal, and suggested that the Chinese Government should charter a special steamer for the purpose. General Chiang Kai-shek was anxious that the deal should go through, as he thought that it would help to frustrate the Japanese-Soviet trade agreement; he had learnt that part of the Japanese plan was to supply Russia with rubber from Indo-China. The Ministry regarded the growing Soviet need for rubber as its chief bargaining weapon, which should not be thrown away without a *quid pro quo* and without any better safeguard than a statement to the Chinese Government that the rubber was for domestic consumption. It was probable that Japan would in any case secure control of most, if not all, of the Indo-Chinese production, and it seemed better that the U.S.S.R. should obtain part of this production, thus reducing the amount available for Germany. A suggestion came from the War Office at the end of February that the British Government should agree to release a certain amount of rubber in payment for Russian

war supplies to Turkey. This proposal was not, however, followed up, and a telegram to Moscow (apparently on 3rd March) said that the Ministry was not prepared to take the initiative in the matter. The importance of this from a bargaining point of view really lay in the increasing value of rubber to the U.S.S.R., rather than in any danger that the U.S.S.R. might release stocks to Germany.

On 22nd March Vyshinski told the ambassador that conditions did not exist for the discussion of general political questions between the two governments in view of Britain's general policy of hostility towards the Soviet Government, and he instanced Lord Halifax's action in Washington in seeking to stop exports to the U.S.S.R. Sir Stafford Cripps said that the relationship must be on a reciprocal basis, and that after Mikoyan's behaviour over the barter agreement in the previous October the British Government had to consider the matter from the strict point of view of its own buying interests. 'They had no knowledge as to what goods were sent through to Germany: therefore they must assume that all goods reaching U.S.S.R. might pass on to Germany.' His conclusions were: '(1) that pressure of blockade is beginning to be felt. [The Soviet Government] thought our anxiety to get something done in Yugoslav matter [*sic*] might put pressure on us to relax our attitude. (2) It is a milder attack than I anticipated. (3) It shows they still attach importance to Baltic questions, but these are beginning to take second place to the blockade. (4) They desire to prepare the ground for possibility of a *rapprochement* with us'.

For the next three months Anglo-Russian relations remained virtually unchanged. The Ministry and Foreign Office were pretty well agreed with Sir Stafford Cripps's reading of the position; he telegraphed on 23rd April that the Soviet Government would yield to German pressure to any extent that did not vitally affect its war preparations or preparedness, but if Hitler was not prepared to be satisfied with assurances and promises he would have to attack. Several attempts by the ambassador and by Mr. Eden through M. Maisky to open up discussions as to the possibility of improved Anglo-Russian relations were abortive, but the Ministry went to the trouble of revising its plans for a war-trade agreement, and these were sent to Moscow on 2nd May.

Schnurre also believed that Germany could secure further economic advantages from Russia in the shape of food and raw material supplies. During April he conducted further trade discussions in Berlin with Krutikov, First Deputy People's Commissar for Foreign Trade. They agreed on 18th April that the Soviet deliveries amounted on 11th February 1941 to 310·3 million reichsmarks, and Germany undertook to make deliveries by 11th May to at least this amount. The discussions continued into May. According to Schnurre's account

Krutikov displayed 'a notably constructive spirit' without showing any extreme willingness to give way which might have been construed as weakness. Difficulties arose, as in the past, over German deliveries, especially in the field of armaments, and Schnurre noted that Germany would not be able to adhere to the more distant delivery dates, but this would not make itself felt until after August 1941. Until then Russia would still be making deliveries in advance. Germany certainly had nothing to complain of. Soviet raw material deliveries, according to Schnurre's memorandum, still presented a favourable picture—208,000 tons of grain, 90,000 tons of petroleum, 8,300 tons of cotton, 6,340 tons of non-ferrous metals (copper, tin, and nickel) in April. The transit route through Siberia was still operating, shipments of raw materials from East Asia, particularly raw rubber (2,000 tons in April by special trains, 2,000 by regular trains) continued to be substantial. Schnurre's memorandum ends somewhat cryptically: 'For the end of May or beginning of June, the Trade Agreement of January 10th, 1941, provides for new negotiations in Moscow regarding settlement of balances. Such negotiations would, however, only make sense if they were used to present specific German demands. If this is not to be the case, I intend to procrastinate with regard to the date of the negotiations.'¹ All speculations were ended on 22nd June when Germany attacked.

It was perhaps appropriate that for the next three months the Ministry was largely responsible for arranging for supplies to go to Russia. A circular telegram was sent on 25th June to all British diplomatic posts, throwing into reverse the measures of economic pressure against Russia. An echo from the past was the news that the Canadian Government had released the *Loch Katrine's* cargo of coffee.

Looking back over the story of Anglo-Soviet economic relations since September 1939, and bearing in mind the uniformly unfavourable political atmosphere, we can conclude that the Ministry did about all that could be expected of it in rather hopeless circumstances. It is difficult to believe that Germany would not have benefited from any barter agreement which omitted the careful reservations laid down in 1940; and it is difficult to see how the Ministry could have secured greater restrictions on German trade with the Far East without unjustifiable risks of trouble with Japan or the American republics. One of the most interesting incidental results of the new situation was that in July 1941 the Soviet Government supplied details of their deliveries to Germany since the beginning of the war. These consisted of figures not only of Russian supplies under the Soviet-German agreements, but particulars of goods which reached Germany in transit through Russian territory from the Far East, Iran,

¹ *N.S. Relations*, pp. 327, 339-341.

and Afghanistan. They are printed in Appendix III. It is instructive to compare these returns with some of the Ministry's contemporary figures. Those for 1939 are not available in a suitable form for comparison, but for 1940 they are reasonably complete, and show a remarkable degree of accuracy in most cases.

Soviet Exports to Germany: M.E.W. Estimates
(metric tons)

	1940		1941	
	Russian figure	M.E.W. estimate	Russian figure	M.E.W. estimate
Cereals . . .	986,000	1,048,100	708,000	760,100
Pulses . . .	35,900		36,500	
Cattle cake . . .	26,200	884,000 (<i>max.</i>)	15,600	726,650 (<i>min.</i>)
Oil . . .	696,000	700,000 (<i>max.</i>)	318,300	294,000 (<i>max.</i>)
Timber . . .	976,000	908,000 (<i>max.</i>)	162,000	— *
Bristles . . .	144	140 (<i>min.</i>)	7	— *
Manganese ore	107,000	106,000 (<i>max.</i>)	54,700	54,188
Chrome ore . . .	23,400	20,210 (<i>min.</i>)	Nil	Nil
Asbestos and wares . . .	13,600	12,034 (<i>min.</i>)	3,210	1,247 (to end March)
Apatites . . .	164,000	212,000 (<i>max.</i>) including concentrates	28,400	29,285 (<i>max.</i>)
Cotton and waste . . .	79,000	82,000 (<i>min.</i>)	57,700	28,927 (<i>min.</i>)
Flax tow . . .	15,700	15,210 (<i>min.</i>)	7,250	4,079 (<i>min.</i>)
Rags . . .	6,020	2,082 (<i>min.</i>)	1,920	— *
Glycerine . . .	3,720	3,050 (<i>min.</i>)	185	— *

* Figures not prepared.

The Ministry's estimates included in certain cases maximum and minimum figures; the latter were received from the special sources available to the Ministry, and formed the basis for its estimate of the possible maximum figure. The Russian experts at the Ministry had come to believe before June 1941 that the maximum estimate represented a surer guide than the minimum figures based on reported deliveries, and the Russian figures in general justified this assumption.

The figures for the total tonnage of goods passing to Germany from the Far East during the first five months of 1941 also came very close to the Ministry's estimates, which were based on reports of daily loadings at Manchouli. The Russians gave a total tonnage of 212,000; the Ministry's general estimate had been 209,000. The principal omission was the very large quantity of rubber, of which only a small proportion had been recorded by the Ministry. A high official of the Ministry said that the figures reflected great credit on the Ministry's statisticians and were highly depressing from every other point of view. Looking to the future, however, there was cause for some confidence; if so much had passed through before the German attack

it could at least be assumed that Germany would feel correspondingly the deprivation of these supplies if the Russian lines held.

This is why the German attack marks the real turning point in the story of the economic blockade; it closed the biggest leak, and its effect on Japanese-American relations was soon to complete the transition in United States policy to full participation in the economic war. With the consequences of this transformation the second volume of this work will be mainly concerned.

Appendices

APPENDIX I

Draft War-Trade Agreement Instructions

The document printed below contains the instructions sent out to the British missions in Stockholm and other neutral capitals on and after the 11th September 1939 for the negotiation of war-trade agreements. To the despatch containing these instructions was appended a draft of the proposed agreement. This draft was the starting-point of all the war-trade negotiations described above in Chapters IV and V, and elsewhere, although the final form of such agreements as were concluded naturally differed considerably from the original version.

FOREIGN OFFICE, S.W.1.

Sir,

I have had under consideration the points on which it will become necessary to negotiate with the Governments of certain neutral countries in the event of a war involving the adoption by His Majesty's Government of measures of economic warfare against an enemy on the Continent of Europe.

2. In these circumstances it would be of the highest importance that negotiations for an agreement should be opened immediately. You should regard this despatch as constituting your instructions for the negotiation of such an agreement, and upon receipt of an appropriate telegram, you should immediately approach the Government to which you are accredited on the following general lines.

3. You should first of all make it clear to the . . . Government that, while His Majesty's Government are naturally anxious to reduce as far as possible the inconvenience inevitably caused to neutrals by war conditions, they intend to exercise with the utmost rigour all the rights conferred upon them by international law in regard to sea-borne trade in war. These two aims can, in the opinion of His Majesty's Government, only be properly reconciled by means of the conclusion of a series of agreements between His Majesty's Government in the United Kingdom and those neutral countries whose trade is largely sea-borne, and therefore subject to serious disorganization under war conditions.

4. His Majesty's Government realize that the conclusion of a comprehensive agreement covering every aspect of war trade (which is what they themselves desire) may involve long and complicated negotiations, in the course of which the very conditions which the agreement would be designed to prevent would inevitably arise. They therefore suggest the immediate conclusion of a temporary agreement (to be kept secret if desired) laying down the general principles by which each party would be guided in its attitude towards questions of war trade and providing for the immediate institution of such further detailed negotiations as may be found necessary for the application of these principles to specific commodities. A draft of the form of the general temporary agreement which

His Majesty's Government have in mind is attached as Appendix I. (There would be no objection to the conversion of this agreement to an Exchange of Notes if the . . . Government so desired). Its underlying principle is, as you will observe, that, in return for certain undertakings as to the limitation and control of . . . trade with the enemy, His Majesty's Government will undertake to permit and so far as possible to facilitate the importation by . . . of commodities essential for her domestic consumption.

5. A list of the commodities whose export from . . . to the enemy it would be most vital to restrict is enclosed for your information as Appendix II; it classifies these goods in three grades (A, B and C) according to their importance,¹ and also supplies some essential statistics. Appendix III is the schedule referred to in Article 5 of the draft Agreement.

6. In presenting this draft to the . . . Government, you should endeavour to avoid being drawn into any discussion of belligerent rights or the law of neutrality; but you should leave them in no doubt that His Majesty's Government are determined to take every means open to them to apply economic pressure to the enemy for the speedy conclusion of the war, and intend to make full use of their belligerent rights as an essential weapon to this end.

7. Having made a communication to the . . . Government on the lines indicated above, and invited their immediate signature to the attached draft preliminary agreement, you should at once report, by telegraph, to the Ministry of Economic Warfare their reactions to it. In the light of this report His Majesty's Government will arrange if necessary for the despatch of an expert delegation to assist you in the conduct of the subsequent detailed negotiations provided for in the agreement.

[Appendix I:]

DRAFT AGREEMENT

The . . . Government and the Government of the United Kingdom of Great Britain and Northern Ireland have agreed as follows:—

1. The . . . Government undertake to fix maxima for the exportation, directly or indirectly, from . . . (to Germany, etc.) of certain commodities in accordance with agreements to be arrived at between the two Governments, and to supply the Government of the United Kingdom with statistics at monthly intervals of . . . exports and re-exports of these commodities to all destinations in Europe.

2. The Government of the United Kingdom undertake to put no obstacle in the way of the importation into . . . of such quantities of certain commodities as may be agreed upon between the two Governments, on the understanding, however, that the goods so imported shall be utilized only for domestic consumption in . . . and shall not be exported therefrom, directly or indirectly.

3. The Government of the United Kingdom also undertake as regards certain essential commodities to be agreed between the two Governments,

¹ This is to indicate the direction in which concessions could be made if our full desiderata are not obtainable.

to use their best endeavours to facilitate the supply to . . . from their own or other sources, of the quantities required therein for domestic consumption.

4. The two Governments will enter into negotiations immediately with a view to deciding upon the commodities to be controlled, and the quantities of them to be imported or exported, as the case may be, in order to give effect to the preceding Articles.

5. Pending the conclusion of the negotiations referred to in the preceding Article, the . . . Government will take the necessary measures, by instituting a system of export licensing or otherwise, to enable the exportation (to all destinations in Europe) of the commodities listed in the attached schedule to be controlled; and they will not permit the exportation (to Germany, etc.), in any one calendar month, of a quantity of any such commodity in excess of one-twelfth of the average annual exports of such commodity to (Germany, etc.) during the years . . . to . . . inclusive-

6. The present Agreement shall come into force on signature, and shall remain in force for a period of one month therefrom. If no notice of termination is then given, it shall continue in force for successive periods of three months subject to the right of either Government to terminate it by notice given one month before the end of any such period.

In witness whereof the undersigned, being duly authorized, have signed the present Agreement.

Done, etc.

[*Appendix II: not printed*]

[*Appendix III: not printed*]

APPENDIX II

Mr. Churchill's Statement of 20th August 1940

The following is the text of Mr. Churchill's statement on relief, mentioned on p. 551 above, from his speech in the House of Commons on 20th August 1940.

. . . There have been many proposals founded on the highest motives that food should be allowed to pass the blockade for the relief of these populations. I regret that we must refuse these requests (*Cheers*). The Nazis declare that they have created a new unified economy in Europe. They have repeatedly stated that they possess ample reserves of food and that they can feed their captive peoples. In a German broadcast of the 27th June it was said that, while Mr. Hoover's plan for relieving France, Belgium and Holland deserved commendation, the German forces had already taken the necessary steps. We know that in Norway when the German troops went in there were food supplies to last for a year. We know that Poland, though not a rich country, usually produces sufficient food for her people.

Moreover, the other countries which Herr Hitler had invaded all held considerable stocks when the Germans entered, and are themselves in many cases very substantial food producers. If all this food is not available now it can only be because it has been removed to feed the people of Germany and to give them increased rations—for a change (*laughter*)—there during the last few months. At this season of the year and for some months to come there is the least chance of scarcity, as the harvest has just been gathered in. The only agencies which can create famine in any part of Europe now and during the coming winter will be German exactions or German failure to distribute the supplies which they command.

There is another aspect. Many of these valuable foods are essential to the manufacture of vital war materials. Fats are used to make explosives. Potatoes make the alcohol for motor spirit. The plastic materials now so largely used in the construction of aircraft are made of milk. If the Germans use these commodities to help them to bomb our women and children rather than to feed the populations who produce them, we may be sure imported foods would go the same way, directly or indirectly, or be employed to relieve the enemy of the responsibilities he has so wantonly assumed.

Let Hitler bear his responsibilities to the full, and let the people of Europe who groan beneath his yoke aid in every way the coming of the day when that yoke will be broken (*Cheers*). Meanwhile, we can, and we will, arrange in advance for the speedy entry of food into any part of the enslaved area when this part has been wholly cleared of German forces and has genuinely regained its freedom (*Cheers*). We shall do our best to encourage the building up of reserves of food all over the world so that there will always be held up before the eyes of the peoples of Europe, including—I say it deliberately—the German and Austrian peoples, the certainty that the shattering of the Nazi power will bring to them all immediate food, freedom and peace (*Cheers*)

APPENDIX III

German Imports from and through the
U.S.S.R., 1939-41

The four tables given below were handed to representatives of the British embassy in Moscow by Krutikov, First Deputy People's Commissar for Foreign Trade, during the first week of July 1941. Telegraphic summaries were at once sent by Sir Stafford Cripps to the Ministry, and the full tables followed by bag. There were some small inaccuracies in one or two of the total figures, possibly explained by some clerical error in the figure for some individual commodity. But, as already remarked on p. 658, they correspond closely with the estimates which the Ministry had made independently.

(i) *Exports from U.S.S.R. to Germany*
(1st September 1939-22nd June 1941)*(Metric tons)*

Description of Goods	Sept.-Dec. 1939	1940	Jan.-22 June 1941
Wheat	—	5,069	217,020
Barley	5,688	732,536	229,854
Rye	—	—	74,292
Oats	—	143,683	186,338
Seeds	301	1,640	184
Maize	—	14,830	—
Herbs	1,308	1,411	274
Pulse	8,437	35,888	36,502
Gums, resins	6	4	—
Unworked timber	—	24,455	2,916
Pulp wood	2,435	372,377	28,925
Props	65,438	344,146	47,326
Sawn timber	22,227	207,076	63,939
Semi-manufactured timber	—	17,419	11,581
Plywood	—	10,325	7,016
Bristles	95	144	7
Casings and cattle stomachs	258	3,781	1,380
Meat products	—	—	25
Boiled fat	—	—	45
Down, feathers	76	245	125
Fat vegetable oils	—	8,851	500
Leaf tobacco	—	191	—
Makhorka	—	797	700
Sunflower seed cake	—	2,051	3,256
Linseed cake	—	3,195	—
Cotton seed cake	—	20,942	12,390
Peltry	26	117	52
Hides	551	1,004	—
Products of coke-benzine ind.	—	1,978	22
Petrol	—	200,392	—

(i) Exports from U.S.S.R. to Germany—continued
(Metric tons)

Description of goods	Sept.—Dec. 1939	1940	Jan.—22 June 1941
Kerosene	—	40	—
Petroleum products	541	—	278,958
Paraffin wax	819	5,346	3,958
Spindle oil	—	15,831	—
Machine oil	—	32,561	—
Solar oil	—	16,627	—
Lubricating oil	—	16,729	—
Bright stocks	—	907	—
Gas oil	—	234,145	—
Fuel oil	—	134,820	—
Manganese ore	3,443	107,064	54,650
Chrome ore	—	23,382	—
Asbestos and wares	1,833	13,586	3,215
Turpentine balsam	699	1,598	54
Products of dry distillation of wood	20	45	29
Rock salt	—	1,458	—
Other turpentine	—	499	36
Magnesite	—	—	434
Chemical products	55	610	51
Ether oils, perfumery	131	63	9
Apatites	10,335	163,617	28,369
Soap	—	1	—
Precious and semi-precious stones	—	—	0
Printed matter	0	0·1	0
Silk combings and raw silk	—	62	38
Sheep wool	—	3	—
Hair	820	1,285	76
Cotton and waste	2,817	78,981	57,662
Cotton fabrics	—	7	—
Linen fabrics	0	—	—
Linen and hemp wares	2	—	—
Flax, tow	4,457	15,668	7,245
Kenaf	—	459	63
Carpets	24	8	7
Handicraft-art wares	1	0·1	—
Rags	2,129	6,016	1,915
Cinema films	0·3	0·2	0·1
Teasels	—	23	7
Horns, hoofs	—	1,308	625
Flax-hemp turfts	—	942	8
Glycerine	—	3,716	189
Iron and steel wire	0	—	—
Motors and cycles	3	—	—
Telegraph, telephone and wireless apparatus	—	0·3	—
Hemp tow	—	782	—
Match splints	—	8	—
Furniture	—	0	—
Fish glue	—	3	—
Wax	—	1	—
Raw products of vegetable origin	—	1	—
Endocrine materials	—	12	—
Animal blood (dry)	—	25	—
Cantharides	—	1	—
Other raw materials and semi-manufactures	1,130	—	—
Other goods	1	—	—
Total	146,106	3,032,830	1,362,269

(ii) *Goods in Transit to Germany through the U.S.S.R. from Japan, Manchukuo, and China*

(January 1940–May 1941)

(Metric tons)

No.	Classification of goods	Transit for 1940	Transit for five months of 1941
1	Soya and Japanese beans	58,477	109,402
2	Whale oil	44,957	33,157
3	Fish (?Cod) oil	11,756	13,005
4	Semi-manufactured rubber	338	218
5	Rubber wares	1,013	1,816
6	Rubber	3,199	12,236
7	Fats	2,086	2,895
8	Vegetable oils	9,038	12,182
9	Nuts	9,313	5,325
10	Tea	3,291	4,780
11	Tinned food	4,951	3,845
12	Copper and copper wares	1,969	2,835
13	Oilseeds	498	1,930
14	Copra	—	1,921
15	Casings	140	531
16	Wool	8	162
17	Cotton	159	—
18	Peltry	52	—
19	Antimony ore	260	—
20	Tin ore	587	—
21	Iron and steel wares	1,279	—
22	Tungsten ore	899	188
23	Ink nuts	64	32
24	Tin	171	367
25	Dry berries	33	—
26	Raw silk	293	75
27	Chemicals	763	537
28	Bristles	15	29
29	Hemp fibre	1,172	791
30	Antimony (metal)	24	18
31	Rhubarb root	13	32
32	Skins and hides	34	314
33	Hams	—	18
34	Buttons	157	29
35	Woollen goods	109	12
36	Hair	14	21
37	Seaweed	43	30
38	Paper	67	17
39	Peppermint	183	19
40	Lecitin (?)	—	68
41	Office requisites	4	—
42	Japanese peas	5,143	15
43	Hats	10	—
44	Toys	2	—
45	Linen wares and fabrics	365	104
46	Cotton goods	31	137
47	Silk yarn and wares	125	99
48	Hosiery	79	11
49	Coffee	1	30
50	Quinine root	—	9
51	Herbs	—	24
52	Hemp goods	639	133
53	(Cotton) thread	590	746

(ii) *Goods in Transit to Germany through the U.S.S.R. from Japan, Manchukuo, and China—continued*

(Metric tons)

No.	Classification of goods	Transit for 1940	Transit for five months of 1941
54	Tobacco	276	120
55	Manganese ore	175	—
56	Tools	22	—
57	Paint	16	46
58	Camphor	32	40
59	Lead	17	—
60	Dried mushrooms	17	—
61	Porcelain goods	5	—
62	Ferrous metals	376	—
63	Shellac	—	192
64	Raw silk (cocoons)	—	76
65	Glycerine	—	223
66	Millet	—	587
67	Nickel	—	22
68	Lubricating oils	—	302
69	Aniseed	—	6
70	Gum arabic	—	27
71	Pepper	—	56
72	Iron and steel goods	—	31
73	Art silk	—	38
74	Fish	—	30
75	Agar-agar	—	8
76	Miscellaneous	892	417
	Total	166,242	212,366

(iii) *Goods in Transit to Germany through U.S.S.R. from Afghanistan (January 1940–31st May 1941)*

(Metric tons)

Description of goods	Transit for 1940	Transit for 1 Jan.—31 May 1941
Cotton	—	1,043
Wool	—	1,029
Dried fruits	327	—
Miscellaneous	—	31
Total	327	2,103

(iv) Goods in Transit to Germany through U.S.S.R. from Iran
(September 1939–May 1941)

(Metric tons)

No.	Description of goods	Transit for 1939	Transit for 1940	Transit for five months 1941
1	Wool and hair	10	9,860	2,354
2	Carpets	17	472	204·1
3	Henna	—	4	—
4	Dried fruits	8,111	42,320	8,079
5	Leather	—	1,392	—
6	Nuts	361	2,678	747
7	Automobiles	—	3	—
8	Gum arabic	—	412	123
9	Casings	2	57	104
10	Silk combings	—	54	2
11	Cotton	—	9,075	12,955
12	Soap root	—	731	88
13	Lamb skins	—	39	5
14	Caraway	—	35	—
15	Wax	—	61	32
16	Beans	—	524	755
17	Sesame seed	—	450	—
18	Linsced	—	370	394
19	Cotton seed oil	—	1,613	45
20	Millet	—	103	—
21	Tobacco	—	10	—
22	Poppy seed	—	1,467	603
23	Peltry	—	45	—
24	Feathers	—	19	2
25	Textile waste	—	44	3
26	Skins	—	—	4
27	Linsced oil	—	24	—
28	Sea shells	—	—	109
29	Machinery and parts	—	—	0·2
30	Garden seeds	—	—	18
31	Tea	—	—	11
32	Hemp	—	—	167
33	Castor oil plants	—	—	11
34	Coreander seed	—	—	5
35	Cotton seed	—	—	256
36	Karakul	—	—	6
37	Hides	—	—	92
38	Miscellaneous	—	40	3
	Total	8,501	71,902	27,177·3

APPENDIX IV

Summary of Agreements with Firms and Associations of Firms

The following is a complete summary of the various agreements negotiated by the Ministry in the winter of 1939-40. Further particulars are given in the text on pp. 102-5.

(i) *Importers and Exporters*

1. The Asiatic Petroleum Co. (Shell Group)
2. General Motors
3. Società Italiana Pirelli
4. Forestal Land, Timber and Railways Co. Ltd.
5. Fabbriche Riunite Industria Gomma Torino (Frigt)
6. Messrs. Francesco Parisi
7. Texas Oil Co.
8. Anglo-Iranian Oil Co.
9. Gulf Oil Co.
10. Socony-Vacuum Oil Co.
11. Hungarian Cotton Industry Ltd.
12. Fabrica de Cauciuc . . .
13. Hungarian Rubber Goods Factory Ltd.
14. European Selling Group of the S. African Wattle Bark Millers and Exporters Association
15. European Selling Group of the S. African Wattle Extract Manufacturers Association
16. Gesamenlijke Importeurs of Rotterdam
17. Standard Oil Company of New Jersey
18. Norske Zinkkompani A/S
19. Tidewater Associated Oil Co.
20. Wetzlar Bros.
21. Borax & Chemicals Ltd.
22. Borax Consolidated Ltd.
23. Baumann & Co., A.
24. Swift Società Anonima, Genoa
25. Oppenheimer Casing Company, Chicago
26. Scott Bader & Co.
27. Ford Motor Co.

(ii) *Shipping Companies*

1. Ramb Line
2. Sjöfartskommittén
3. Zetska Plovidba
4. Italia
5. Holland America Line
6. Svenska Orient Line

7. Royal Hungarian Danube Sea Navigation Co.
8. Isthmian Steamship Co. Ltd.
9. Jadranska Plovidba D.D.
10. Compagnia Genovese di Navigazione a Vapore
11. Iceland

(i) IMPORTERS AND EXPORTERS

1. ASIATIC PETROLEUM CO. (SHELL GROUP)

This company obtained from time to time from their subsidiaries in various countries an undertaking with regard to the consumption of oil and petroleum shipments consigned to the subsidiary. When such an undertaking was obtained from a wholly-owned subsidiary, the Asiatic wrote a letter to the Ministry saying it was their settled policy to secure the terms of the undertaking by the subsidiary which they then set out in full. They went on to say that the subsidiary had undertaken to observe such terms and that they, the Asiatic Co., understood that on the strength of the assurance the Ministry was prepared to allow reasonable quantities of crude oil to proceed without claim of contraband. The Asiatic also obtained similar undertakings from certain subsidiaries not wholly owned by them; but the Asiatic said that as they were not in full control of such subsidiaries they were unable to give any undertaking in respect of such subsidiaries, and accordingly they merely wrote saying they have obtained such an undertaking and that they believed it was given in good faith. The standard form of undertaking given by the subsidiary was to this effect—

(1) Subject to occasional and unimportant quantities referred to in (2) hereunder all cargoes of crude oil products consigned to (name of subsidiary) in (neutral country) should be utilized solely for internal consumption in (neutral country).

(2) No such importation into (neutral country) should wholly or partly be exported from (neutral country) except in occasional small quantities of particular products destined to neutral countries only.

(3) That in the case of said occasional exports an undertaking would be obtained from the neutral to whom the export was made that the products would not be re-exported.

(4) That no crude oil or oil products presently stored by (subsidiary) or on its behalf in (neutral country) would be exported except to a neutral with the accompanying undertaking referred to in (3) above.

The fully-owned subsidiaries who signed the undertaking were:

<i>Country</i>	<i>Name of subsidiary</i>	<i>Date of Asiatic's notification to M.E.W.</i>
Holland	De Bataafsche Petroleum M/J	25 Oct. 1939
Belgium and Luxembourg	Belgium Shell Co. and Soc. Luxembourgeoise Carburants S.A. but for 'safety' petrol for these companies was consigned to Soc. Belgo-Luxembourgeoise Des Carburants	26 Oct. and 6 Dec.

Switzerland	Lumina S.A.	23 Nov. 1939
Greece	Shell Co. (Hellas) Ltd.	27 Nov.
Turkey	Shell Co. of Turkey Ltd.	27 Nov.
Italy	(i) Nafta Soc. Italiana Del Petrolio ed Affini	28 Nov.
	(ii) Soc. Der L'Ind. Ital. Del Petrolio	} 11 Dec.
	(iii) Fabrica Ital. Lubrificanti Ed. Aff.	
	(iv) Union Import Lubrificanti	
Spain	Soc. Petrolifera Española	29 Nov.
Yugoslavia	Shell Co. of Yugoslavia	1 Dec.
Hungary	Shell Mineral Oil Co. Ltd.	7 Dec.
Portugal	Shell Co. of Portugal	8 Dec.
Rumania	Shell Co. of Roumania	2 Jan. 1940
Bulgaria	Shell Co. of Bulgaria	3 Jan.
Iceland	O/Y Shell A/B	Feb.
Finland	Finska Mineralolje A/B	Feb.
	Suomen Mineralolje O/Y	Feb.
Iceland	Hlutajland Shell A Islandi	Mar.

The partly-owned subsidiaries were:

Belgium	Soc. Commerciale Asa. S.A.	4 Dec. 1939
Italy	S/A Italiora Importazione Oill.	Dec. 1939

Shipments of bitumen from Shell Co. of Egypt to the above subsidiaries were covered by the above undertakings. With this subsidiary—Shell Co. of Egypt—the following arrangement was made in February 1940 in respect of aviation spirit only. The Asiatic Petroleum Company

(1) Would seek M.E.W.'s approval before tendering for all proposed consignments of aviation spirit from Egypt to Portugal, Spain, Switzerland, Italy, Yugoslavia, Hungary, Rumania, Bulgaria, Greece, and Turkey.

(2) If M.E.W. did not object it would notify the Air Ministry, who, if it had no objection, would signal accordingly to A.O.C. Middle East.

(3) A.O.C. Middle East would then notify C.C.S.O. Port Said accordingly.

(4) The company would notify C.C.S.O. Port Said and M.E.W. of name of ship not less than one week before it was due to sail.

(5) Unless Port Said was told to the contrary they would allow shipment to proceed subject to verification of cargo.

The Asiatic further procured the usual form of undertaking from Messrs. Luzzatto & Figlio (Belgique) Ltd.; this firm was not a subsidiary at all but acted for forty years as the Shell Group's agent for distribution of paraffin wax in Belgium. The Asiatic said they are not themselves able to give an undertaking but that they believed the undertaking was given in good faith. Date of letter was 12th December.

Raffinerie Belge de Pétales controlled by Soc. Commerciale Asa S.A. (see above) gave a similar undertaking which was addressed to Asa. No undertakings from Norway (Akt. Norske Shell) or from Denmark (Akt. Dansk Shell) or from Sweden.

On 26th January 1940 the company wrote to say that the consignors would not always appear as the Asiatic Petroleum Co. but might be in accordance with the following information.

'(1) All shipments of products, whether from our own production or purchased in the U.S.A., are consigned by the Asiatic Petroleum Corporation, which is a Shell Group Company.

'(2) All cargoes shipped from our installations in Curaçao are consigned by the Curacaosche Petroleum Industrie Mij, which is a Shell Group company.

'(3) We occasionally ship crude cargoes from Las Piedras or Puerto de La Cruz in Venezuela. These cargoes are consigned by the Nederlandsche Olie Mij., which is a Shell Group company.

'(4) These cargoes which are shipped from Aruba under purchase from the Standard Oil Co., of New Jersey, are consigned in the name of the Arend Petroleum Mij., which is closely associated with the Shell Group.

'(5) Occasionally cargoes purchased from the Standard Oil of New Jersey are loaded at Caripito in Venezuela; such cargoes are consigned by the Standard Oil Co. of Venezuela, which is not a Shell Group company.

'(6) Occasionally cargoes are purchased from the Anglo-Iranian Oil Company and are shipped from Abadan, in which case they are consigned by the Anglo-Iranian Oil Co., which, of course, is not a Shell Group company.

'(7) Cargoes of Iraq crude shipped from Haifa or Tripoli are consigned by the Iraq Petroleum Company.

'(8) Cargoes from Suez are consigned either by the Shell Company of Egypt Ltd., or the Anglo-Egyptian Oilfields Ltd., both of which are Shell Group companies.

'(9) Cargoes from Rumania are consigned either by the Astra Romana S.A. which is a Shell Group company, or in the case of some purchased Rumanian oils, by other non-Group Rumanian companies.

'(10) Cargoes of petroleum products shipped from Trinidad are consigned by the United British Oilfields of Trinidad Ltd., which is a Shell Group company, or, in the case of purchased oils, possibly by the Trinidad Leaseholds Ltd., which is not a Shell Group company.'

To the consignors mentioned above, under whose name 'Shell' products could be shipped, there should be added Asiatic Petroleum (Texas) Ltd.

2. GENERAL MOTORS

As the result of discussions between the Ministry of Economic Warfare and the Regional Director of General Motors Ltd. in October and November 1939, there was settled a form of Agreement to be entered into between Ministry of Economic Warfare and various companies in Europe affiliated to General Motors. There were certain variations in the form in particular cases.

A summary of the general form was as follows: 'In consideration of Ministry of Economic Warfare assuring (affiliated company) that the shipment from overseas to (country where company operates) of vehicles, cars, trucks, tyres, tubes, accessories, and any article whatsoever whether of foregoing nature or not or any component part imported by the company will be facilitated so far as is compatible with the exercise of Contraband Control, the company agrees and undertakes

'(1) Not to export the company's imports (including, where they consist of component parts of vehicles, any vehicles assembled therefrom) to Germany or territory under German control.

'(2) To obtain from anybody to whom company shall supply any of company's imports a guarantee acceptable to the Ministry that such of the company's imports so supplied shall not be resold outside country where such person is resident.

'(3) To consult the Ministry before accepting an order for re-export or supply where it is reasonably apparent that the order is abnormal in quantity or otherwise or where there are circumstances suggesting that the ultimate destination is Germany.

'(4) To furnish to the Ministry of Economic Warfare monthly statements showing company's imports and exports to all Europe.

'(5) To permit His Britannic Majesty's Representative at (country in question) to have access to all books, ledgers and documents of the company and to give information as required.

'(6) To use its best endeavours to have particulars of consignments sent in advance of shipment so that the Ministry of Economic Warfare can make inquiries before arrival of ship at contraband-control base.

'(7) To use its best endeavours to arrange with General Motors (U.S.A.) or other person from whom company imports that no imports shall be shipped except in a ship whose owners have undertaken to call voluntarily at a contraband-control base or to send in a copy of the manifest in advance.

'One week's notice by either side to terminate.'

One subsidiary, General Motors Continental S/A, Antwerp, signed the agreement on 13th December 1939. In this case, Clause 5 (access to books) was deleted to comply with Belgian law.

3. SOCIETA ITALIANA PIRELLI

This company gave an undertaking, dated 19th December, for themselves and for the other firms in the same group.

The undertaking covered 'all the materials which we are in the habit of importing for consumption in our factories, such as rubber, cotton, jute, carbon black, copper, lead, wood-pulp, linseed oil, machinery, etc., whatever the origin or port of shipment'. The undertaking was to this effect:

(1) The materials imported would be used in their factories in Italy, and would not be re-exported either in original or another form, directly or indirectly, to enemy territories.

(2) Particulars as to shipments would be supplied to the commercial

counsellor of the British embassy in Rome, and the company said that they assumed that these particulars would be notified to the Contraband Control Service and to the Bank of England (in connection with the credits to finance their purchases); as a result, the company could dispense with the supplying of undertakings of ultimate destination in connection with shipments or credits.

(3) The company had required their customers, other than retailers, to pledge themselves not to export products of materials imported by Pirelli, and to get the company's assent before exporting such products, if fitted to a finished article.

The firms belonging to the same group who were covered by the undertaking were:

Soc. Ital. Conduttori Elettrici = S.I.C.E., Livorno.

Fabbrica Ital. Conduttori Elettrici = F.I.C.E., Napoli.

Ind. Conduttori Cavi Elettrici e Affini = I.C.E.P., Sesto Florence.

Soc. Ital.-Amer. Filo Elastico Pirelli-Revere, Milan.

Le Pneu Clement S.A., Milan.

Soc. Ital. Ebanite e Somituti = S.I.E.S., Monza.

Soc. An. Prodotti Salpaz Affini = S.A.P.S.A., Sesto San Giovanni.

Soc. Ital. Del Linoleum, Milan.

Soc. Tessili Artificiali S.T.A.R., Milan.

Soc. Anon. Cotonifici Riuniti S.R.L., Milan.

4. FORESTAL LAND, TIMBER AND RAILWAYS CO. LTD.

They were the sole purchasers from Argentine and Paraguayan manufacturers for resale to Europe of solid, ordinary, and soluble quebracho extract.

The company agreed on 22nd December 1939:

(1) To sell to such countries in Europe, to such persons and in such quantities as might from time to time be approved by His Majesty's Government.

(2) To obtain guarantees from buyers if required.

(3) To give statistical information as to sales and shipments.

(4) To submit to have their books inspected by His Majesty's Government or chartered accountant.

(5) To do their best to give particulars of shipments in time to enable the Ministry to make inquiries before the arrival of the ship at a base.

(6) To do their best to ship on British vessels or vessels which would call voluntarily at a base.

The Ministry agreed to facilitate transport of the commodities covered by the agreement and not to disapprove of quantities on a normal basis.

The agreement was terminable on one month's notice.

The company also signed an agreement on 6th May 1940 covering the export of wattle (mimosa) extract and bark from Kenya, in form identical with that signed by them in respect of quebracho extract and outlined above. The company were sellers for East African Tanning Extract Co. Ltd. of Nairobi, Kenya Colony.

5. FABBRICHE RIUNITE INDUSTRIA GOMMA TORINO (FRIGT)

The company's affairs were conducted by the main Pirelli group, but, for accounting purposes, the company normally imported raw materials on their own account. The undertaking, dated 27th December 1939, covered all materials which the company were in the habit of importing for consumption in their factories, such as rubber, cotton, carbon black, machinery, etc. The company undertook that:

(1) Materials would be used in their factories in Italy and were not intended for re-export, either in original or another form, either directly or indirectly to enemy countries.

(2) Details of shipments would be regularly supplied to British embassy, who, they assumed, would notify (a) Contraband Control Services, (b) Bank of England in connection with credits which were opened in London to finance their purchases made through the London market.

In consequence of these undertakings they would not supply British consuls in Italy with declarations concerning either shipments or credits.

(3) They would exact a pledge from their customers, other than retailers, not to export or re-export directly or indirectly the products manufactured, and to ask their (FRIGTS) consent for export or re-export of such products if fitted to any finished article.

6. MESSRS. FRANCESCO PARISI

A large firm of forwarding agents in Italy. Agreement made in letters of 9th January 1940:

(1) Agreement to be regarded as very confidential as Italian authorities might cause difficulties.

(2) Goods consigned to Francesco Parisi or consigned to someone else marked 'Notify Parisi' to be treated with expedition.

(3) Firm assured M.E.W. they would not be a party to forwarding to Germany or territory in German occupation any goods arriving in Italy or at Susak.

(4) Firm assured M.E.W. they would take all possible steps to see that name of neutral consignee was shown on shipping documents.

(5) As regards goods arriving at Italian or Yugoslav ports in transit, not consigned to a neutral and for which a German firm held the bill of lading, the firm did not undertake not to forward such goods, but they undertook not to facilitate shipment of such goods whether by offering services or placing orders or acting as buying agent.

(6) Firm assured M.E.W. it would decline business where there was reason to believe that goods would be re-exported to enemy.

(7) They would refrain from dealing with any firms who might be specified on the understanding that M.E.W. would do its best to discourage such firms using services of another forwarding agent. M.E.W. agreed not to specify a firm without having serious reasons for so doing.

(8) Firm assured M.E.W. they would not handle goods for export unless accompanied by certificates of origin.

(9) Firm would take all possible steps to prevent forwarding of correspondence between German and neutral firms; firm would agree to an arrangement if M.E.W. wanted it for submission of correspondence to consul for his approval.

(10) Firms would furnish consuls with documentary or other evidence as to destination; M.E.W. was to notify firm of any suspicions so as to give the firm an opportunity to investigate.

7. TEXAS OIL CO.

A general undertaking was obtained from N.V. The Texas Company, Holland, a subsidiary of this company. The terms, which were similar to those signed by other subsidiaries, were:

(1) No part or product of the imports was to be exported to Germany or territory under German control, which included ships under German flag or control.

(2) If goods or product were sold again other than to retail traders, a like undertaking should be obtained from the purchasers.

(3) If exported to a neutral, a like undertaking would be obtained from purchasers, but in case of bunkers the undertaking would be from the owner or master that the bunkers would be used solely on the vessel.

(4) Goods or products thereof in bond or in transit in Holland should be deemed to have been imported and on being sent out, or used for bunkers, should be deemed to be exported.

(5) Explanations and documentary evidence would be furnished if required.

(6) No import would be deemed to release any existing stocks for export.

The subsidiaries who signed this undertaking during the period under review, classified under countries, were:

<i>Country</i>	<i>Name of Subsidiary</i>	<i>Date</i>
Holland	N.V. Texas Oil Co.	15 Jan. 1940
Italy	Texas Co. S.A.I.	19 Jan. 1940
Norway	Texas Co. (Norway) A/S	24 Jan. 1940
Belgium	Texas Co. Soc. en Belge	24 Jan. 1940
Denmark	Texas Co. A/S, Copenhagen	24 Jan. 1940

8. ANGLO-IRANIAN CO.

General undertakings, in form similar to those signed by the Texas Oil Co. subsidiaries, were obtained from the following subsidiaries of this company:

<i>Country</i>	<i>Name of Subsidiary</i>	<i>Date</i>
Belgium	L'Alliance S.A.	Jan. 1940
Holland	Petroleum Handelsmaatschappij (P.H.M.)	Jan. 1940
Norway	Norske Braendselolje A/S	Jan. 1940
Italy	Benzina Petroleum (B.P.) S.A.	Mar. 1940
Switzerland	'B.P.' Benzine & Petroles S.A.	Mar. 1940
Belgium	Sinclair Petroleum Co. S.A.	Mar. 1940

9. GULF OIL CO.

General undertakings, in form similar to those signed by the Texas Oil Co. subsidiaries, were obtained from the following subsidiaries of this company:

<i>Country</i>	<i>Name of Subsidiary</i>	<i>Date</i>
Belgium	Belgian Gulf Oil Co. S.A.	Feb. 1940
Holland	Nederlandsche Gulf Olie Mij.N.V.	Feb. 1940
Denmark	Alfred Olsen & Co. A/S	Feb. 1940
Switzerland	'Rimba' Rob. Jos. Jecker Mineraloel and Benzin A.G.	Feb. 1940

10. SOCONY-VACUUM OIL CO.

General undertakings, in form similar to those signed by the Texas Oil Co. subsidiaries, were obtained from the following subsidiaries of this company:

<i>Country</i>	<i>Name of Subsidiary</i>	<i>Date</i>
Sweden	Vacuum Oil Co. A.G.	Feb. 1940
Yugoslavia	Standard Vacuum Oil Co. of Yugoslavia Inc.	Feb. 1940
Turkey and Bulgaria	Socony-Vacuum Oil Co. Inc.	Feb. 1940
Norway	Norsk Vacuum Oil Co. A/S	Feb. 1940
Belgium	Vacuum Oil Co. S.A.B.	Feb. 1940
Greece	Socony-Vacuum Oil Co. Inc.	Feb. 1940
Denmark	Vacuum Oil Co. A/S	Feb. 1940
Holland	Vacuum Oil Co. N/V	Feb. 1940
Portugal	Vacuum Oil Co., Lisbon	Feb. 1940
Canary Islands	Vacuum Oil Co. of Canary Islands S.A.E.	Feb. 1940
Denmark	Vacuum Oil Co. A/S, Copenhagen	Feb. 1940
Latvia	Vacuum Oil Co. A/S, Riga	Feb. 1940
Italy	Raffineria di Napoli	Mar. 1940
Italy	Vacuum Oil Co. S.A.I.	Mar. 1940
Switzerland	Vacuum Oil Co. A.G. (Basel)	Mar. 1940
Rumania	Vacuum Oil Co. S.A. d.v.	Mar. 1940
Rumania	'Photogen' Rafineria de Petrol S.A.	Mar. 1940
Lithuania	Vacuum Oil Co. A/S, Riga	Mar. 1940
Hungary	Vacuum Oil Co. R.T.	Mar. 1940
Finland	O/Y Vacuum Oil Co. A/B	Mar. 1940
Iceland	Oliuverzlun Islands H/F	Apr. 1940
Iceland	H. Benediktsson & Co.	May 1940

11. MAGYAR PAMUTIPAR RESZVENYTARSASAG (HUNGARIAN COTTON INDUSTRY LTD.)

The company undertook, on 12th January 1940,

- (1) To appoint chartered accountants to inspect books for past two years and, if possible, certify that the company had no German control, connection or association.

(2) Not to export to Germany or territory under German control raw material or wholly or partly finished goods; nor to sell such goods to anybody suspected of re-selling to Germany or to anybody of whom M.E.W. might notify them.

12. FABRICA DE CAUCIUC, SOC. AN. P. INDUSTRIA ELECTRICA SI CHEMICA OF BRASOV, RUMANIA

A subsidiary of the Ungarische Gummiwaren Fabrik Budapest (see below).

On 17th January 1940 the company gave the following assurances in consideration of which the Ministry agreed to subject them to as little delay as possible:

(1) Company would at own expense request British chartered accountants to examine books and furnish report.

(2) Company would not export directly or indirectly to Germany or territory under German control.

(3) Company would not sell to anybody where it had reason to believe goods might be re-exported to Germany, or to anybody whose name is notified by His Majesty's Consul at Bucarest.

(4) Company would not import through anybody whose name might be notified as in Clause 3; would furnish monthly statements of imports showing country of origin and firm from whom purchased.

(5) If the company exported goods outside Rumania the company would ask the accountants to report on the percentage of non-Rumanian value represented in company's chief export lines.

13. UNGARISCHE GUMMIWAREN FABRIK (HUNGARIAN RUBBER GOODS FACTORY LTD.)

This company gave assurances similar to its subsidiary (see 12 above).

14. EUROPEAN SELLING GROUP OF THE SOUTH AFRICAN WATTLE BARK MILLERS AND EXPORTERS ASSOCIATION

The constituent members of this Association were the firms in column 1, who were sellers for the firms in column 2.

Blyth, Greene, Jourdain & Co. Ltd.	Theo. Schloss & Co. Ltd.
Forestal Land Timber & Railways Co. Ltd.	Natal Tanning Extract Co. Ltd. Herbert Mayne Jopp & Co. Ltd.
Hunt, Leuchars & Hepburn	Hunt, Leuchars & Hepburn Ltd. The Rand Mining Timber Co. Ltd.
Lockie Pemberton & Co.	Lockie Bros. (S.A.) Ltd. The Union Co-operative Bark Milling Co. Ltd.

The commodities covered were dry wattle bark, chopped or ground in bags or bales, or wattle bark dust. The agreement was made on 14th February 1940, and was in the same form as that made with the Forestal Land, Timber & Railways Co. Ltd.

15. EUROPEAN SELLING GROUP OF THE SOUTH AFRICAN WATTLE EXTRACT MANUFACTURERS ASSOCIATION

The constituent members of this Association were the firms in column 1 who were the sellers for the firms in column 2.

Forestal Land, Timber & Railways Co. Ltd.	The Natal Tanning Extract Co. Ltd.
Barrow, Hepburn & Gale Ltd.	Hodgson Extract Co. (Pty.) Ltd.
Hunt, Leuchars & Hepburn	Natal Chemical Syndicate Ltd.
Roy Wilson, Dickson Ltd.	Comeo Mimosa Extract Co. Ltd.

The commodities covered were solid wattle extract manufactured in the Union of South Africa. The agreement was made on 14th February 1940 and was in the same form as that made with the Forestal Land, Timber & Railways Co. Ltd.

16. GESAMENLIJKE IMPORTEURS OF ROTTERDAM

This was a combine of Dutch fruit importers comprising:

Algemeene Vruchten Import Mij. N.V. of Rotterdam.

De La Bella & Co. of Rotterdam.

N.V. Fruit & Groenten Im. & Export Mij. V.H. Jac. V. d. Berg of Rotterdam.

N.V.P. v. Hoeckel & Co.'s Im. & Exporthandel Den. Bosch.

International Fruit Co. of Rotterdam.

Solbandera N.V. of Rotterdam.

Velleman & Tas of Rotterdam.

The combine controlled seventy-nine per cent. to ninety-two per cent. of the following fresh fruits: oranges, mandarines, fresh apples, lemons, fresh pears, and grape fruit.

An agreement was made on 16th February 1940, as follows:

(1) The Ministry agreed to permit the passage of certain quantities of each kind of fruit as specified in the second schedule and based on seventy-nine per cent. to ninety-two per cent. of the average imports less exports of 1936-38. There was a provision for varying these quantities according to whether there was a proportionate increase or decrease of imports by persons outside the combine. If there was a deficiency in Holland's own crop of apples or pears, M.E.W. agreed to permit an increased quantity of imports.

(2) Fruit consigned to members of the combine was not to be declared in transit or sold to anyone likely to export *in any form*.

(3) Fruit was to be sold by the combine only in their auction rooms and only to members of the two official associations of buyers.

(4) Combine would ensure that the two official associations accepted the following conditions of sale and combine would enforce such conditions and inform M.E.W. of breaches:

(a) buyers should distribute purchases locally for local consumption;

(b) buyers should not resell to a third person not a member of the two associations, except in course of retail trade;

- (c) members of the two associations should report to the combine cases where fruit sold at combine's auctions had been resold to Germany;
- (d) member of association breaking condition of sale should not be allowed to buy fruit at the auctions for at least six months and no member should resell fruit to such person.
- (5) Combine should supply consul at Rotterdam quarterly with full information and particulars of sales.
- (6) Combine would try to give M.E.W. advance particulars of shipments and to arrange that fruit-carrying ships should only carry fruit for the combine or if consigned to A.N.I.C. or the Dutch Government would be marked 'notify Gesamenlijke Importeurs'.
- (7) Combine should not purchase fruit from a source not passing through contraband control without notifying M.E.W. and such purchases should be covered by this agreement.
- (8) Agreement might be modified if imports from Belgium not covered by agreement affect the combine. M.E.W. might determine agreement at any time upon a breach or otherwise upon two months' notice.

17. STANDARD OIL COMPANY OF NEW YORK

The following subsidiaries of this company gave undertakings in form similar to those given by the subsidiaries of the Texas Oil Co.

<i>Country</i>	<i>Name of Subsidiary</i>	<i>Date</i>
Italy	Societa Italo Americana Del Petrolio .	Feb. 1940
Italy	Societa Italiana Lubrificante Bedford .	Feb. 1940
Switzerland	Standard Mineraloelprodukte A.G., Zürich	Mar. 1940
	(In the case of this company the undertaking was slightly varied by provision for the furnishing of explanations and documentary evidence, etc., to 'the competent Swiss authority' to comply with Swiss law.)	
Belgium (including Luxembourg)	Standard Petroleum Co. (Antwerp) .	Mar. 1940

18. NORSKE ZINKKOMPANI A/S

An agreement was made with this firm of Eirtheim, near Odda, Norway, on 2nd March 1940. They were importers of zinc concentrates.

19. TIDEWATER ASSOCIATED OIL CO.

A letter from M.E.W. of 28th March 1940 confirmed an arrangement made with this American company, to the following effect:

- (1) The company would restrict sales to neutral European destinations to the companies and to the quantities shown in a schedule;

the quantities being based on the average sales of these companies during years 1936-38.

(2) Company would forward quarterly to Clarendon Petroleum Co. an audited statement of sales to European neutral destinations, which was to be available for inspection by M.E.W.

(3) Company to arrange where possible for companies named in the schedule to provide local British consul, if required, with audited statement of their sales.

(4) With regard to agency held by Romsa for the sale of Tidewater products in Balkan countries, the company would not accept orders placed by Romsa for countries outside Italy until M.E.W. had received and approved a list of the companies for whom such orders would be placed, and had agreed with the company on the maximum figures for shipments to those companies in any one year.

(5) M.E.W. would facilitate passage through controls of and issue of navicerts for future shipments to consignees and to the extent provided above, and would ask Procurator-General to consider release of certain Tidewater cargoes already seized.

It was pointed out that whilst this agreement would ensure treatment of the company on equal footing with other companies, no preferential treatment would be accorded in the event of general decisions of policy being made affecting all companies.

20. WETZLAR BROTHERS

of 201 Prinsengracht, Amsterdam. An agreement was made with these importers of chinaware, toys, bicycle accessories, hardware, buttons, textiles, toilet articles, and stationery on 30th April 1940.

21. BORAX & CHEMICALS LTD. (*see para. 22*)

This British company and Borax Consolidated Ltd., another British company, controlled the larger part of shipments of American borax to Europe. The company undertook:

(1) To sell its products to such countries and to such persons in such quantities and by such routes as approved by M.E.W.

(2) If required, to obtain from any buyer an acceptable guarantee or declaration.

(3) To furnish, as required, statements showing sales and shipments and such other information as might be required.

(4) To allow access to books, etc., to a chartered accountant and pay his fees.

(5) To ensure that all shipments are covered by navicerts.

M.E.W. undertook:

(1) To facilitate passage of company's products so far as compatible with belligerent rights.

(2) To consult with the company and give assistance in matters arising out of the agreement.

The agreement was dated 1st May 1940 and was terminable by one month's notice by either party. It covered only borax and boric acid.

22. BORAX CONSOLIDATED LTD. (see para. 21)

The agreement with this British company was in the same terms as that with Borax & Chemicals Ltd. (*supra*). It covered, however, not only borax and boric acid, but also rasorite, ammonium borate, and sodium metaborate. It was dated 2nd May 1940.

23. BAUMANN & CO., A. (see para. 4)

of 4 Lloyds' Avenue, E.C., signed an agreement on 6th May 1940 covering the export of wattle (*mimosa*) extract and bark from Kenya, in form identical with that signed by Forestal Land, Timber & Railways Co. Ltd. in respect of quebracho extract, and outlined in para. 4 above.

The company were sellers for Premchand Raichand & Co. of Nairobi, Kenya Colony.

24. SWIFT SOCIETA ANONIMA, GENOA

An agreement was made with the Genoa subsidiary of Swift & Co., the Chicago meat packers. This was in the form of an undertaking given on 25th May 1940 by the London subsidiary on behalf of the Genoa subsidiary. The company agreed

(1) neither directly or indirectly to export or permit the export of its imports from Italy to neutral countries;

(2) to obtain from any person or firm buying its goods a guarantee of non-export;

(3) to furnish monthly statements of its imports and exports to all European countries, to consult the Ministry in the case of all orders for re-export of an abnormal character, and to furnish to the Ministry, or a chartered accountant designated by them, evidence regarding matters arising out of the agreement;

(4) to arrange that navicert applications should be made in all cases to cover its imports.

In return M.E.W. would facilitate the passage of the company's imports, in so far as this was compatible with the exercise of contraband control.

25. OPPENHEIMER CASING COMPANY, CHICAGO

By an agreement dated 27th May 1940 the company agreed:

(1) to sell or supply its products, namely sausage casings, only to such countries and subsidiaries and by such routes as the British Government should from time to time approve;

(2) to furnish such information concerning its sales as the Ministry might reasonably require, and to allow access to its books to a chartered accountant designated by the Ministry;

(3) neither directly nor indirectly to export any article whatsoever to any country for which the Allied system of navicerts was in operation unless covered by a navicert.

In return M.E.W. would facilitate the transport of the company's products to Europe, in so far as was compatible with the exercise of belligerent rights, and would permit the company to make application for navicerts direct to the Ministry.

26. SCOTT BADER & COMPANY

An agreement was signed on 15th June 1940 with this company, who shipped bentonite and resins to its agents in Switzerland, Messrs. Meier Gaissert, and other buyers there. It was already problematical to what extent the company would be able to continue these shipments. The agreement was in a form similar to that signed by the Oppenheimer Casing Company.

27. FORD MOTOR COMPANY, DEARBORN, U.S.A.

An agreement was concluded on 15th June 1940 with the American Ford Company of Dearborn, although the development of the war meant that its scope was very limited. The agreement gave M.E.W. complete control over the exports of the American company. In exchange, the Ministry agreed to allow them to consign to order, provided that the Ministry were told who, in fact, the consignee was, and of any change in the consignee. This somewhat unorthodox procedure was agreed to by the Contraband Committee. It only extended to buyers falling within the British company's agency, but these included the whole of Europe and the Near East.

(ii) SHIPPING COMPANIES

1. RAMB LINE

These were banana boats from Italian Somaliland to Italy; the consignees of the cargo were usually the Italian State Banana Monopoly.

On 22nd Nov. 1939 M.E.W. agreed that until further notice all banana ships of the Ramb Line should be allowed to proceed direct to Italy subject only to verification of their cargo.

As Italians had objected to verification at Port Said, M.E.W. said they were to be verified outside territorial waters; Rome said it would not object to this (31st January 1940).

2. SJÖFARTSKOMMITTÉN

This was a committee of the Swedish Shipowners Association. Agreement made with this committee in exchange of notes on 7th December 1939 covered *outward-bound* voyages of certain ships placed under the control of the committee.

(1) Committee would establish an organization to control documents relating to the country of origin of cargo shipped on committee's vessels.

(2) Committee would obtain, unless otherwise agreed, from appropriate trade organization, certificates of origin in a form covering the shipments.

(3) On strength of these certificates committee would certify on each manifest that there was no cargo on board not so covered and would put such certified manifest before His Majesty's Consul to verify committee's signature.

(4) Committee would co-operate with M.E.W. to investigate suspected breaches.

M.E.W. agreed not to divert ships under control of committee to a base on outward-bound voyage provided ship did not carry mail or passengers of any belligerent nationality. Terminable on one month's notice. (List of ships omitted.)

3. ZETSKA PLOVIDBA

This was a Yugoslav shipping company which maintained a service between Constanza, Istanbul, Smyrna, Piræus, Haifa, Trieste, and Susak. An agreement, made on 14th December 1939, covered their one ship, the s.s. *Lovcen*:

(1) Company agreed to send M.E.W. and consul at Trieste copy manifest on voyage Constanza to Trieste and to M.E.W. and consul at Constanza copy manifest on voyage Trieste to Constanza.

(2) Company would not carry cargo of which M.E.W. disapproved or to anybody of whom M.E.W. disapproved. Company would obtain on voyage Constanza to Trieste guarantee from consignee of all goods and on voyage Trieste to Constanza certificate or origin for goods loaded at Trieste.

(3) Company would give consuls at Trieste and Constanza assistance in supervising loading and unloading.

(4) Company would give British representatives at any port of call opportunity to inspect cargo and documents.

(5) M.E.W. agreed to interfere as little as possible whilst reserving belligerent rights.

(6) Agreement terminable on one month's notice.

A supplemental agreement was made operating from 29th February 1940. M.E.W. undertook not to divert the s.s. *Lovcen* in the absence of suspicious circumstances.

(1) Inward—before ship left Izmir, company to give list to consul of cargo loaded at Istanbul and Izmir, and, if possible, cargo to be loaded at Piræus.

(2) Outward—before ship left Susak, company to give H.M.R. list of cargo loaded at Susak, and/or Trieste.

(3) Company to permit unloading of cargo for detention or seizure on arrival at Haifa.

(4) Company to hold back if required such items as might be specified, for forty-eight hours at Trieste and six hours at Constanza. If M.E.W. decided within such time, company to ship back such items to Haifa for seizure.

4. ITALIA LINES (*outgoing transatlantic services*)

An agreement was made on 16th December 1939 covering enemy exports, as follows:

In consideration of intention of Allies to treat vessels of Italian Soc. Arr. di Navig. with greatest consideration compatible with contraband control and control of enemy exports company undertook:

(1) All outward-bound ships would call voluntarily at Gibraltar.

(2) As from 10th January 1940 company would accept no outward-bound consignment from Italy unless shippers produced certificate of origin in approved form; certificate would be carried on board.

(3) Till 10th January 1940 company would inform M.E.W. of cargo not covered by certificate of origin and undertook not to deliver it at destination and to return it to contraband-control base if requested. Masters would have authority to give such guarantees.

(4) Outward-bound ships not to be diverted by French authorities before call at Gibraltar.

(5) In consideration of Clause 4, company undertook that no outward-bound ship should disembark passengers or unload cargo or mail at Spanish port between last Italian port and Gibraltar, and would afford Allied consuls at Spanish port at which they called to pick up passengers and cargo all reasonable facilities to satisfy themselves control of German exports not weakened.

(6) Every effort to be made to expedite examination of ships at Gibraltar, only to be detained for such time as necessary, (i) to check certificates of origin, (ii) to secure guarantees mentioned in Clause 3, and (iii) to permit customary examination of passengers and of mails.

(7) Terminable on one month's notice.

List of ships: (*Rex, Vulcania, Roma, Conti di Savoia*, and forty others).

5. HOLLAND AMERICA LINE

The passenger vessels outward bound from Rotterdam of this line called at Southampton to embark passengers and accordingly it was arranged in February 1940 that the ships might be examined at Southampton instead of the Downs, subject to two conditions: (1) master of ship must produce all necessary papers at the Custom House, Southampton; (2) if any cargo had to be discharged the vessel must proceed into Southampton or other United Kingdom port.

6. SVENSKA ORIENT LINE

An agreement was made on 19th February 1940 covering those ships which proceeded from the Mediterranean to Norway and Sweden and providing for their control in the Mediterranean and exempting them from control at Kirkwall or any other United Kingdom base.

7. ROYAL HUNGARIAN DANUBE SEA NAVIGATION CO.

Agreement commenced 26th February 1940. The company undertook:

(1) To send M.E.W. manifest for every voyage. To hand copy manifest to C.C. Haifa on arrival every ship.

(2) To hand H.M.R. on inward voyages:

at Alexandria, list of all cargoes loaded at Alexandria;

at Piræus, list of all cargoes loaded in Greece;

at Izmir, list of all cargoes loaded in Turkey (except Istanbul);

at Istanbul, list of all cargoes loaded at Istanbul;
 at Galatz, list of all cargoes loaded in Rumania;
 at Belgrade, list of all cargoes loaded in Yugoslavia and Bulgaria.

(3) To notify H.M.R. at towns above and at C.C.B. Haifa in advance where possible of cargo to be loaded at subsequent ports.

(4) Not to load cargo outward in Bulgaria, or any cargo (except corn or timber) in Rumania without M.E.W. consent.

(5) Not to load outward in Hungary, Yugoslavia or Turkey without certificate of origin.

(6) Inward, not to load in Egypt, Greece (including Crete), Turkey, Rumania, Bulgaria or Yugoslavia; nor outward, in Palestine, when goods consigned to Turkey or Europe (except Greece) without guarantee from ultimate consignee. Certificates of origin and guarantees to be carried on ship and produced on demand to H.M.R. or naval patrols and handed to H.M.R. on discharge.

(7) To insert clauses in B/L to enable company to implement agreement.

(8) If so required, to hold back goods and to ship them back to Haifa for seizure. M.E.W. might, on fourteen days' notice, alter procedure and require company not to part with control without consent of H.M.R.

(9) To give H.M.R. and C.C. Stations facilities to inspect ship, cargo, loading, and unloading.

(10) Not to carry cargo of a type, or to or for persons, of which M.E.W. disapproved.

One month's notice to terminate.

Agreement covers following ships: *Duna, Szeged, Kassa, Tisza, Budapest*, while on the route: Danube, Istanbul, Izmir, Beirut, Haifa, Tel-Aviv, Jaffa, Port Said, Alexandria, Candia, Kalamata (optional), Piræus, Izmir, Istanbul, and so back to Budapest.

8. ISTHMIAN STEAMSHIP CO. LTD.

This company gave, in April 1940, assurances that *homeward-bound* ships, i.e. from India to the United States via Suez Canal:

(1) Would not call at any port between India and the United States except Aden and Port Said.

(2) Would not carry mails or passengers.

In return, M.E.W. would not detain these ships at control bases in absence of suspicious circumstances, but reserved His Majesty's belligerent rights.

The vessels covered were the *Steel Age* and thirty-five others.

9. JADRANSKA PLOVIDBA D.D. of Susak, Yugoslavia

This shipping company signed an agreement and exchanged confidential letters with M.E.W. Agreement slightly modified by letter of 8th May 1940.

- (1) The *agreement* related to Line 58 from Susak and Trieste to Piræus and back, and provided:
- (a) company to send M.E.W. copy manifests of each voyage and not to carry mails to or from any Italian port except Albania. For the time being M.E.W. was not objecting to small quantity of Yugoslavian mail being carried to Trieste;
 - (b) company not to carry cargo of which M.E.W. disapproved nor carry cargo to or from or on behalf of persons of whom it disapproved. M.E.W. agreed not to exercise this power unreasonably;
 - (c) if required, company to abolish transit from their bills of lading;
 - (d) company to give H.B.M. Consuls or representatives or person appointed by them every assistance in supervising loading or unloading;
 - (e) company to give consuls opportunities to inspect ship's cargo and documents as required;
 - (f) M.E.W. agreed to discuss with company any question for adjustment of agreement;
 - (g) on inward voyage, as soon as ship leaves Piræus, company's agent to hand consul there list of cargo loaded and to give any information as to cargo to be loaded at other ports;
 - (h) company and M.E.W. would do their best to prevent loading of suspicious cargo, but if suspicions did not arise until after cargo was loaded, then on request from consul at Trieste, Susak or Piræus company to retain control for fourteen days of such cargo as is specified, and if further requested, within such period would send such cargo to Haifa or Malta at company's option and expense for seizure. Reshipment might, however, be delayed for three months to facilitate arrangements for a special call of one of the company's ships at such control port, though company retained right to reship by another company's vessel. Company to notify consul of proposed date of reshipment and whether Haifa or Malta. If there was no request to hold back any cargo on arrival, the cargo might be delivered by the company. If there was no request to reship within fourteen days any items held back, such items might be delivered;
 - (i) company to do their best to get declarations of ultimate destination in advance for goods to be discharged at Susak or Trieste;
 - (j) company not to load at Susak or Trieste without previously obtaining certificate of origin and interest;
 - (k) declarations and certificates to be handed over to consul on conclusion of voyage to which they related;
 - (l) company to insert in their bills of lading clauses enabling them to implement agreement;
 - (m) under reservation of belligerent rights M.E.W. agreed to interfere with ships as little as might be compatible with exercise of such rights;

- (n) though intention was that agreement was to remain in force for duration of war, it might be cancelled on one month's notice by either party;
- (o) agreement operated from 29th April 1940;
- (p) company undertook to withdraw a protest in Malta Commercial Court (*Agius v. Vice-Admiral Ford*) dated 14th December 1939;
- (q) ships ordinarily employed on this line were *Beograd* and *Srbin*.
- (2) The confidential *exchange of letters* related to *inward voyages* only of Line 7 (Kotor to Susak), of Line 9 (Ulcinj to Susak), and Line 56 (Metkovic to Trieste and Venice) and consisted of:
 - (i) A letter by the company agreeing:
 - (a) to send copies of manifests of inward-bound voyages;
 - (b) no cargo to be carried without being disclosed on manifests;
 - (c) consuls might inspect cargo and papers and supervise loading and discharge in order to see that (b) was observed;
 - (d) to cease carrying cargo of type of which M.E.W. objected;
 - (e) not to carry cargo to or from or on behalf of persons of whom M.E.W. disapproved.
 - (ii) M.E.W.'s reply:
 - (a) whilst reserving belligerent rights, M.E.W. would not interfere with ships and would not object to cargo or disapprove of persons without reasonable cause;
 - (b) M.E.W. assumed that no new services would be started without communicating with M.E.W.;
 - (c) the names of the ships concerned were s.s. *Vardar*, *Bled*, *Split*, and *Soca*, and as reserves *Hrvatska* and *Bosna*.

10. COMPAGNIA GENOVESE DI NAVIGAZIONE A VAPORE S.A.

This agreement with the 'Capo' Line of Genoa was signed on 11th May 1940:

- (1) It covered all ships operating from Genoa to Rumania and back, namely *Capo Faro*, *Capo Orso*, *Capo Mele*, *Capo Arma*, *Capo Vado*.
- (2) On outward voyages from Italy:
 - (a) Calls at Bulgarian or Rumanian ports to be for purpose of discharging cargo only.
 - (b) No cargo to be loaded at any Italian port without certificate of origin and interest or export pass.
- (3) On inward voyages from Rumania:
 - (a) Calls at any Rumanian, Bulgarian or Turkish port to be for loading or bunkers only.
 - (b) Company to do their best not to load any cargo unless covered by declaration of ultimate destination.
- (4) On reasonable notice M.E.W. might require company to load no cargo at other ports unless covered by certificates of origin and interest or export pass.
- (5) At Piræus and Istanbul, outward, and at Istanbul, inward, company's agent must get into touch with consul. At Piræus and

Istanbul, outward, company's agent must hand consul list of all items loaded at Piræus and Istanbul. At Istanbul, inward, agent must hand consul copy manifest showing all cargo then on board. At each port on each occasion company's agent and consul must thereupon arrange to telegraph at company's expense to M.E.W. name of ship, number of voyage and particulars of such items of cargo as consul may decide.

(6) At respective ports of discharge company must hold back all cargo particulars of which had been telegraphed and must not release without consent, and, if required, must within one month ship any items, at company's expense, to Marseilles or Malta for seizure.

(7) No declaration of ultimate destination and no hold back required for eggs loaded at Istanbul and bona fide intended for transshipment to Spain, provided company (i) gave undertaking to M.E.W. in each case to transship, and (ii) produced to M.E.W. within one month evidence that eggs had reached Spain, or had been lost at sea. This was without prejudice to any requirements for voyage from Italy to Spain.

(8) On all voyages and at all ports H.M.R. or naval patrols to be afforded every facility to inspect ships' papers, cargo loading and unloading.

(9) Company not to carry any cargo, nor carry to or from or for anyone, from time to time disapproved by the M.E.W. M.E.W. to exercise this power reasonably.

(10) At end of each voyage company to post to M.E.W. copy of manifest. Copies of manifests to bear numbers of certificates of origin and interest or export passes opposite relative items, with names of consulates where issued.

(11) Certificates of origin and declarations of ultimate destination when obtained in advance to be carried on ship and handed to H.M.R. at port of discharge of relative goods.

(12) Company to insert in bills of lading clauses enabling them to implement this agreement.

(13) Company not to permit transshipment with object of evading control, but this not to prevent bona fide transshipment in ordinary course of trade.

(14) Company to notify M.E.W. of any proposed cargo which represented unusual traffic, and not to handle it without the M.E.W.'s consent.

(15) Company to give reasonable notice before carrying mails. Any mails carried were liable to be removed at sea for examination. Company not to carry letters, packets, or parcels, not shown on manifest, other than mails or papers relating to ship or cargo.

(16) Company not to carry passengers whose passports were of country at war with Allies or of a country in occupation of such a country.

(17) Subject to usual reservations, M.E.W. undertook to interfere as little as possible with the company's ships, though liability of ships to be boarded and examined at sea remained.

11. ICELAND

Joint Standing Committee consisting of representatives of Iceland and His Majesty's Government (the French Government might be represented, but did not express any desire) was authorized to enter into a 'shipping agreement' with the Icelandic shipping companies and other shipowners and/or charterers as well as the principal non-Icelandic shipping companies engaged in Icelandic trade, namely, the Bergenske Steamship Company and the United Shipping Company, whereby, *inter alia*, ships carrying exclusively cargoes for members of the association (i.e. those who had signed a formal declaration of adherence to the recommendations from time to time laid down by the committee) might be exempted from calling at a contraband-control base, subject to the following provisions:

'(1) That no goods will be carried to or from Iceland, except those consigned to or by the members of the association.

'(2) All ships leaving Iceland shall be loaded under supervision of the committee and unloaded at ports of arrival under the supervision of H.M. Consular Officer; in case of ships carrying goods to Iceland, certificates of origin to be obtained for all cargoes at the port of loading from H.M. Consular Officer, and none other than certified cargo shall be carried, and the unloading of all cargoes on arrival in Iceland shall be effected under supervision of joint committee, who shall verify that cargo unloaded is in accordance with manifest as certified by H.M. Consular Officer.

'(3) No goods will be released without consent of M.E.W.

'(4) Any goods which M.E.W. require to be seized shall be returned to the United Kingdom if so desired, and a clause is to be inserted in all bills of lading to give the shipping company the right to retain the goods if requested to do so.

'(5) All passengers carried to be approved by the committee or, in the case of passengers sailing to Iceland, by H.M. Consul at port of embarkation.

'(6) No mails are to be carried, but this does not apply to open letters and documents relating to goods consigned in the ship, provided that all such letters shall, in the case of a vessel sailing from Iceland, have received the approval of the committee, or in the case of vessels sailing to Iceland, the approval of the appropriate British consular officer.

'(7) In the case of infringement or evasion of the provisions of the shipping agreement the committee will, if it thinks fit, recommend that no member of the association shall ship their goods in vessels belonging to the company so infringing or evading.'

In addition to the above provisions the following procedure was to be complied with unless otherwise agreed:

'(1) In the case of vessels sailing from Iceland their names, dates of sailing and destinations, with such details of manifest as His Majesty's Government may require, must be given to M.E.W. before sailing, and in the case of trawlers and/or other fishing vessels before sailing from the fishing grounds their names, dates of sailing, destinations and

details of their catches; in each case a copy of details to be given to the committee.

'(2) In the case of ships sailing to Iceland from or via European waters, their names, dates of sailing and such details of manifests as His Majesty's Government may require must be given to M.E.W. before sailing from last port of loading.'

As at 20th May 1940, the undermentioned Icelandic companies had signed shipping agreements with the committee in the above terms:

- (1) *H.F. Eimskipafjelag Íslands*
(Iceland Steamship Co. Ltd.), which owns the following vessels:
s.s. *Dettifoss*, *Godafoss*, *Briarfoss*, *Gullfoss*, *Selfoss*, *Laeafoss*.
- (2) Kea Ltd.—owners of s.s. *Snaefell*.
- (3) Kveldulfur Ltd.—owners of s.s. *Hekla*.
- (4) *Eimskipafelag Reykjavíkur*
(The Reykjavik Steamship Co. Ltd.)—owners of s.s. *Katla*.

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