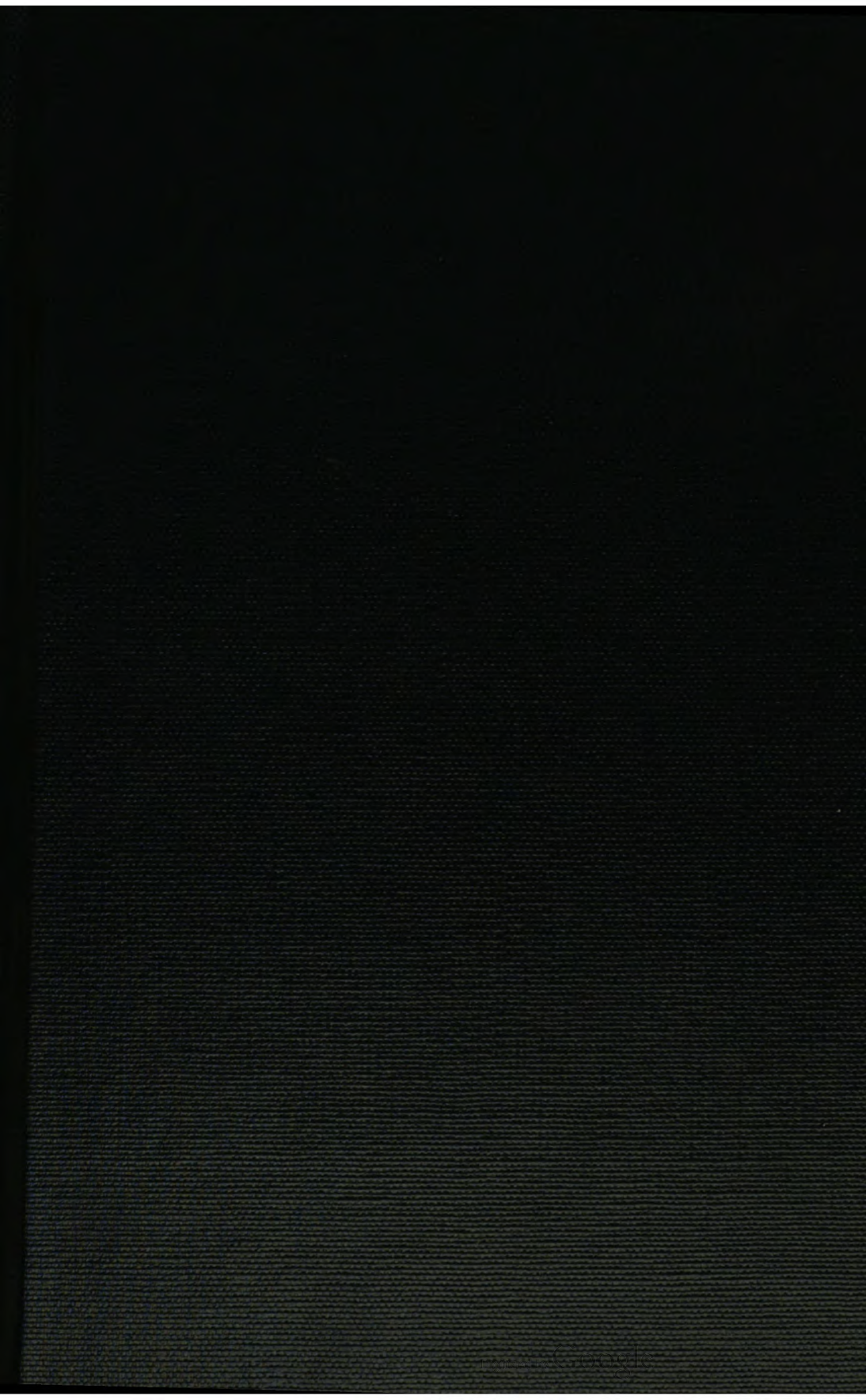

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**HISTORY OF
THE SECOND WORLD WAR**

UNITED KINGDOM CIVIL SERIES

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THE ECONOMIC BLOCKADE

VOLUME II

BY

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PREFACE

IN this second and concluding volume of the history of the economic blockade I have followed the same general plan as in the first volume. The subject of the two volumes is the attempt to deprive the Axis of aid to its war economy from neutral sources. This effort took many forms, including 'control at source' (that is, the prevention of the export of goods for Axis consignees from neutral countries outside Europe), contraband control, and diplomatic pressure on the European states adjacent to Germany and Italy. It has accordingly been necessary to trace a great many different negotiations and many changes and adaptations of the administrative routine of the blockade; at the same time there were broad lines of policy and planning which underlay the separate activities and which had also to be related to the even broader aims of Allied policy as a whole. The best way to arrange the material seemed as before to be to adopt a broadly chronological treatment, and to sub-divide the volume into two parts, corresponding to the two wider phases into which the period falls. The first runs from the German attack on Russia (June 1941) to the Allied landings in North-West Africa (November 1942). The second covers the remainder of the war, until the summer of 1945. Each part is prefaced with a general survey of the plans, problems, and assumptions of the Ministry of Economic Warfare, together with other general matters; separate chapters on the administrative, diplomatic, pre-emptive, and other activities of the Anglo-American economic-warfare agencies follow. The choice of 'economic blockade' instead of the wider term 'economic warfare' as a title is because the work does not deal primarily with attack on the enemy's economy behind his lines, by air bombing and sabotage, although there is, I hope, sufficient reference to these activities to put blockade into the general economic-warfare setting.

It must be admitted that the end of 1942 does not mark so abrupt a turning point in the economic war as the two previous ones—the fall of France in June 1940 and the invasion of Russia in June 1941. The steady improvement in the Allied fortunes in 1943 enabled the Allies to press their demands on the neutrals with increased self-confidence, but success did not come quickly, and it was not until 1944 that the European neutrals began a wholesale restriction of their exports to Germany. Nevertheless the contrast between the two phases is real and sufficient. The first was a period in which the Allies could do little more than hold their own, and its most interesting feature was perhaps the re-shaping of the blockade to

bring the United States Government agencies, with their new enthusiasm and new ideas about many things, into full partnership with the British. The economic campaign, which had been mainly a matter of British effort and inspiration before June 1941, now became effectively Anglo-American, with some lively clashes of aims and moods; there emerged one of the great wartime alliances, with each party encouraging and at times exasperating the other into ever fresh activity. The fact that there were differences in approach and method must not be burked, and it gives a further complication to the story, which we must think of in terms of a threefold struggle: the uncompromising Anglo-American battle against the Axis, the keen but on the whole friendly and invigorating clash of ideas between the two Allies themselves, and above all the long wrestling of the Allies with the neutrals.

One result of the closeness of the Anglo-American ties was the important rôle of the War Trade Department of the British embassy in Washington. The State Department preferred to do business with the Ministry of Economic Warfare through the British embassy rather than through its own embassy in London, and this was reflected in the quality of the War Trade Department's archives. Although this volume is based mainly on the archives of the General Branch of the Ministry of Economic Warfare, I have found valuable additional material in the War Trade Department files during visits to Washington. The Department's filing, I may add, was based on a system so excellent and straightforward as to make reference almost a pleasure. The papers in the Ministry's files, in addition to being far more voluminous, were never reduced to the apple-pie order of those in Washington, and investigation becomes more laborious in matters relating to the last phase of the war. I have also used, for relevant parts of the work, material in the Cabinet Office, the Board of Trade, the Foreign Office, the Air Ministry, and other government departments in London.

I had much kindness and help in Washington from Dr. G. Bernard Noble, Chief of the Historical Division of the State Department. The United States Government abandoned in 1946 a plan to write its own history of the American effort in economic warfare, and it is with a due sense of my responsibility that I call attention to the fact that this volume has to cover much of the American, as well as of the British, side of the story.

It is peculiarly the case with this volume that the work and conclusions are, for better or for worse, the sole responsibility of the author, for with the rather abrupt closing down of the Ministry of Economic Warfare in May 1945 and the dispersal of its wartime staff he was left to wander at will in the archival field, of which he became almost the sole occupant. This has had its drawbacks. The

testimony of the living witness, which is rightly regarded as the one supreme advantage (in compensation for some disadvantages) that the contemporary historian possesses over his fellows, has been less easy to secure under these conditions. I had, however, the opportunity to follow many developments as an eye-witness inside the Ministry during the war, and I have been able to talk to a number of neutral and American specialists in this field since the war. It is impossible to name all those who have been helpful in this way, but I should like to say a special word of thanks to the following: M. Gunnar Hägglöf, Dr. Birger Steckzén, Dr. Nils Ørvik, Dr. Herbert Feis, and the late Professor E. M. Earle.

It should perhaps be said that although the British official histories of the Second World War do not contain footnote references to the documents consulted by the historian, a complete system of references has been prepared for the two volumes of this work and will be preserved in the Cabinet Office. This follows the general practice. Points disputed by reviewers or critics can thus be checked, and this is in turn a means of ensuring that special care will be taken to preserve the files and individual documents on which the history is based. The vast mass of hurried writing on inferior paper that makes up the bulk of the archives of a wartime government department is highly rewarding to the historian, providing he does not look for short cuts. He can usually follow in great detail, in the minutes circulated in the office, the arguments, hesitations, and second thoughts, and sometimes the confidence or over-confidence by which executive decisions are reached, and he can usually satisfy himself that the official is writing for the moment, and not shaping his material for publicity or posterity. At least half the material used for this work consisted of telegrams to British missions abroad, which went through the Foreign Office in a special series; but in a department like the Ministry of Economic Warfare the borderline between the functions of the minute and the telegram tended to disappear. Instructions to missions almost invariably went by coded telegram and not by despatch or letter, but many telegrams set out proposals and problems that were being discussed inside the Ministry, and invited comment; much of the success of the War Trade Department was undoubtedly due to this flexible and expeditious procedure.

Statements in the text of this work are based on this official material unless otherwise stated. As in the first volume I have endeavoured to present the story through the eyes of the contemporary British officials. I have added some references to our post-war knowledge of German developments in order to provide some basis of judgment of the Ministry's record, but this is, it should be said, essentially a record of British wartime policy and not a systematic study of

Germany's wartime economy. I was greatly helped at various stages of this work by my two research assistants, Miss Irene Scouloudi and the late Miss Grace Stretton. I have also to thank my wife for help in proof correction and the preparation of the index.

W. N. MEDLICOTT

8th May 1957

LIST OF ABBREVIATIONS

A.M.G.O.T.	Allied Military Government of Occupied Territory
B.E.W.	Board of Economic Warfare
CAMPESA	Spanish petroleum company
C.E.D.U.P.	<i>Companhia de Exportações do Ultramar Português</i>
CEPSA	Spanish petroleum refinery at Teneriffe
c.i.f.	cost, insurance, freight
COSSAC	Chief of Staff to the Allied Supreme Commander (designate)
C.R.C.M.	<i>Commissao Reguladora do Comercio de Metais</i>
C.R.M.B.	Combined Raw Materials Board
E.B.	<i>The Economic Blockade</i> , vol. i (H.M.S.O., 1952)
E. & O.T.	Enemy and Occupied Territories
E.P.G.	Economic Pressure on Germany (Committee)
F.E.A.	Foreign Economic Administration
F.O.	Foreign Office
f.o.b.	free on board
<i>Fuehrer Conferences</i>	<i>Fuehrer Conferences on Matters dealing with the German Navy, 1941-1944</i> (Office of Naval Intelligence, Navy Department, Washington, 1947)
G.F.O.	German Foreign Office
HISMA	<i>Compania Hispano-Marroquí de Transportes Ltda</i>
I.I.C.	Industrial Intelligence Centre
I.P.O.C.	Iberian Peninsula Operating Committee
J.I.C.	Joint Intelligence Committee
J.I.S.	Joint Intelligence Staff
L.A.T.I.	<i>Linee Aeree Transcontinentali Italiane</i>
M.E.W.	Ministry of Economic Warfare
N.E.I.	Netherlands East Indies
<i>N.S. Relations</i>	<i>Nazi-Soviet Relations, 1939-1941</i> (Washington, U.S.G.P.O., 1948)
Nur. T.	<i>Trial of the Major War Criminals before the International Military Tribunal, Nuremberg, 14 November 1945-1 October 1946</i> (Published at Nuremberg, Germany, 1948)
O.E.W.	Office of Economic Warfare
OKW	<i>Oberkommando der Wehrmacht</i>
OVERLORD	The Liberation of North-Western Europe

RANKIN	Operations to exploit a German collapse
R.F.C.	Reconstruction Finance Corporation
ROUNDUP	Cross-Channel invasion plan, 1943
S.A.C.O.R.	<i>Sociedade anonima concessionaria de refinação de petroleos em Portugal</i>
SAFEHAVEN	Campaign against German external assets
S.A.F.I.	<i>Sociedad Anonima Financiera e Industrial</i>
S.D.	State Department
S.K.F.	<i>Svenska Kullagerfabriken</i>
S.O.E.	Special Operations Executive
SOFOUNDUS	<i>Sociedad Financiera e Industrial</i> (German holding company in Spain)
TORCH	Invasion of North-West Africa
T.W.E.	Trading with the Enemy
U.K.C.C.	United Kingdom Commercial Corporation
U.N.R.R.A.	United Nations Relief and Rehabilitation Administration
U.S.C.C.	United States Commercial Company
U.S.S.B.S.	The United States Strategic Bombing Survey
W.T.D.	War Trade Department

‘The Ministry’ refers throughout this volume to the
Ministry of Economic Warfare

PART I

The American Impact

July 1941–November 1942

CHAPTER I

GENERAL SURVEY

THE economic blockade, too hopefully regarded in the early days of phoney war, but a potent weapon in which the British Government always retained faith, had entered after the summer of 1940 on a long period of adjustment. The collapse of France and the remarkable extension of German economic and territorial control in Europe that followed it marked the obvious and indeed dramatic point of transition between the first and second phases of the economic war, and for the next twelve months the British Empire stood virtually alone as a belligerent; the Netherlands and Belgian Empires were the only other considerable areas still ruled by Allied governments. Then the German invasion of Soviet territory on 22nd June 1941 gave Britain a new ally in Europe, and the turn for the worse in Japanese-American relations which quickly followed brought the British and American Governments together in a policy of economic pressure on Japan. The increasing severity of the restrictions on her foreign trade during the next four and a half months left her with only the choice between retreat and war, and Pearl Harbour in December 1941 merely formalized an Anglo-American partnership which in the field of economic warfare had become a reality in the previous summer. The partnership became ever closer during the dark months that followed, but it was not until the turn in Allied fortunes after the end of 1942 that a successful attack could be launched on the trade with the enemy of the remaining neutral powers.

Thus if we look at the economic war as a whole we might regard it as falling into three broad stages, the middle one running from the summer of 1940 to the end of 1942 and including the developments in administration and policy which gave the distinctive character to the Allied achievement, and paved the way for the final offensives of 1943 and 1944. The German breach with Russia in June 1941 marked the end of an important phase, and the story was taken down to that point in the first volume of this work. But it marked a change of opportunities rather than of ideas. The new utility clothing donned by blockade policy after the fall of France soon acquired a style and impressiveness of its own, and the increasing collaboration of the United States added to its range and variety. Mr. Hugh Dalton, as Minister of Economic Warfare from 15th May 1940 to February 1942, guided the Ministry during the greater part of this

period of transition, and placed on all its work the stamp of his own buoyancy, originality, and courage.¹ If the innovations in policy seem today to be the inevitable response to changed circumstances, they did not always appear so at the time; and in the summer of 1940 it needed some persistence and faith to maintain the blockade at all. Although during the succeeding months the Ministry of Economic Warfare had held doggedly to its conviction that Germany's economy was vulnerable, all modes of attack behind the enemy's lines proved ineffectual,² and even the operation of the traditional blockade machinery of interception and contraband control at sea had become impossible with the German occupation of the greater part of the coastline of western and northern Europe and with Italy's entry into the war. Yet it had been imperative that the flow of goods from overseas sources to enemy and adjacent-neutral territory should be controlled, and the distinctive achievement of the second year of the war had been the successful establishment of control at source, with compulsory navicerting as the means, and compulsory rationing as the end, of the system. 'Compulsory' navicerting meant that a neutral exporter to any destination in the blockade area would render his goods, and the ship carrying them, liable to seizure if he did not secure permission to export from the British blockade authority. 'Blacklisting' and the withholding of shipping facilities under the 'ship warrant' system were further possible sanctions that could be applied against the blockade runner, and the acquiescence, with greater or lesser goodwill, of the United States and the other American republics in these arrangements ensured their success. This effective control of the imports of the remaining European neutral countries provided some bargaining weapons, and prevented the accumulation of stocks which might tempt the Axis forces to walk in. But the European neutrals were at that period much too conscious of German ferocity and might to attempt defiance.

While the third phase of the war (June 1941–December 1942), which we have now to consider, saw a great realignment of forces and the development of global conflict it did not modify substantially the core of the economic-warfare problem in Europe. Time, as usual, seemed to be on the Allied side, but in the meantime the Axis powers, still exploiting the strength secured by their earlier rearmament, gained resounding victories, pushed their conquests to

¹ Mr. Dalton's *Memoirs*, vol. ii, *The Fateful Years* (London, 1957), sketch the problem of the Ministry in the middle period of the war (chaps. XXIV, XXV).

² These had included an air offensive sufficient to destroy Germany's synthetic oil plants, disorganize transport, and otherwise aggravate internal conditions; resistance by the population of occupied territories; and prevention of the use of waterways round Europe and of the Danube for German supply. The Ministry also postulated diplomatic or naval action to ensure the cutting off of supplies via Russia and French North Africa. *E.B.*, i, 420-1.

the limit, and even threatened for a time to make contact in Asia. The German attack had automatically ended the flow of Soviet goods into the Reich, and the United States Government was prepared to collaborate fully (and after Pearl Harbour officially) in British blockade policies and to add distinctive (and sometimes embarrassing) contributions of its own. The Russian counter-offensive from December 1941 to April 1942 had at least postponed an ultimate German victory. On balance, however, the relative military superiority of the Axis seemed during the greater part of 1942 to be more marked than ever, and the five remaining European neutrals, although relieved of the fear of immediate German attack, saw nothing in the situation to justify any substantial reduction in their economic aid to the Axis.

Before discussing the Anglo-American strategy during this difficult phase of the economic war we must examine a little more closely the economic position of the two enemy groups—in Europe and the Far East—and the Ministry's presuppositions as to their strength and weakness. Some very precise plans were based on a partial misreading of the facts.

Since the German collapse in 1945 evidence from German sources has revealed curious inefficiencies in economic preparation and planning. During 1942 the inadequacies of 'armament in width' for anything more than the *blitzkrieg* campaigning of 1939-41¹ were becoming manifest, and under the direction of Albert Speer progressively desperate efforts were made during the remainder of the war to remedy this state of affairs. Much information on this subject came into the hands of the Allies in 1945, immediately after the German collapse, and was recorded after elaborate interrogations of Speer and others; the main conclusions to be drawn from this and later evidence are now fairly well known,² and it may well be that the tendency has even been to exaggerate German (and Hitlerite) blunders in this field. We must at least bear in mind throughout that the decision to go to war was taken by Hitler before the end of 1937 with a clear understanding of the choice before him; he knew that quick victories might be secured against certain opponents if he

¹ Cf. E.B., i, 28.

² All the then available evidence, including the results of the interrogations of Speer, Werner Bosch, Hans Kehrl, Rolf Wagenführ, Herbert Backe, Walter Schieber, General Thomas, and others, was incorporated in the series of reports produced by the United States Strategic Bombing Survey in 1945. The introductory volume to this series, *The Effects of Strategic Bombing on the German War Economy* (31st October 1945), although undertaken primarily as a study of the economic effects of strategic bombing, gives the fullest account that has so far appeared of Germany's wartime economic problems and policy. See also the important article by Dr. Nicholas Kaldor, (who was closely concerned with the preparation of the U.S.S.B.S.), 'The German War Economy' (Manchester Statistical Society, 1946).

struck before their rearmament was completed, and that if Germany waited until she had herself created a more massive armament industry she might find herself faced with the completed rearmament of her opponents, and be relatively worse off. For a time he succeeded brilliantly. His failure lay not so much in the fact that Germany had not prepared herself economically to overcome the resources of a fully armed Russia, United States, and Great Britain, as in the errors of strategy and political judgment which involved him simultaneously in war with all three. Given the opportunity to deploy their full resources they could overwhelm the Axis powers; an intensified war effort on Germany's part could do no more than delay the inevitable defeat. Hitler had boasted before the war that he could avoid this situation. To attribute final failure merely to faulty economic planning is indeed to miss the point of his real responsibility.

This is not to say that the course, if not perhaps the ultimate result, of the war might not have been very different if the German Government between 1939 and 1941 had strained every resource to secure the full development of its armament industry, instead of being content with an output sufficient to satisfy the demands of the short, lightning campaigns which had been so successful in Poland in 1939, in Denmark, Norway, and western Europe in 1940, and in Greece in 1941. After the fall of France a partial decrease in armament production was publicly announced by Hitler as a preparation for return to a peace economy, and although this was compensated by increased emphasis on tank and submarine production its effects were still being felt in 1941, when the total armament production was scarcely higher than it had been in 1940. It could still be said in 1941 that German armament production led the world; but the potentialities or achievements of Russian, American, and British rearmament were gravely underestimated. Time was indeed on the Allied side, and Germany just lacked the strength to deliver the *coup de grâce* to Russia before the end of the year 1941. Even so it does not appear that the German failure to achieve final victory before December 1941 was due to inadequate armaments; the German armies were again well equipped for the further short *blitzkrieg* campaign that had been expected to suffice in 1942. Bad weather, faulty German strategy perhaps, above all the scale of Russian resistance, were the real causes of the setback.

In February 1942, on the day following the death of Professor Todt, it was officially announced that Hitler had appointed his personal architect, Professor Albert Speer, to the three offices which Todt had held. These were the Inspector-Generalship for the German Highways, Minister of Armaments and Munitions (*Minister für Bewaffnung und Munition*), and the Inspector-Generalship of the Water

and Power Industry. Speer was to make a profound personal contribution to the increase in German war production, although it need not be assumed that a similar advance would not have been made under other leadership if Todt had survived, or someone else had succeeded him. In any case, the immediate task that faced Speer was to prepare for another and final offensive in the summer of 1942, rather than to refashion Germany's war economy. Not only had no preparations been made before June 1941 to obtain an increase of armament production to meet the need of a prolonged Russian campaign, but in important categories such as arms, ammunition, and shipbuilding output was declining right up to the middle of 1942. German total weapons production, which had risen gradually up to July 1941, had declined to 71 per cent. of the July total in December 1941; the July figure was not reached again until May 1942. In ammunition production the following figures, which show in column 2 the values in the months in which maximum output occurred, tell the same story.¹

German ammunition production, 1941-2
(values in million RM)

	<i>Maximum output (1941)</i>	<i>Output in Dec. 1941</i>	<i>Maximum regained in</i>
Mines, handgrenades . . .	February: 7.8	2.4	March 1942
Artillery ammunition . . .	February: 69.1	15.7	May "
Heavy infantry ammunition .	February: 12.8	6.9	March "
Light infantry ammunition .	April: 12.9	6.3	June "
Aircraft armament ammunition	September: 20.7	17.0	June "
Flak armament ammunition .	November: 89.4	77.3	July 1943
M/T gun ammunition . . .	December: 11.7	11.7	—

This general trend was strengthened by Hitler's decision at the end of September 1941, when victory in Russia seemed assured, that considerable reduction in war production could safely be undertaken, partly as a beginning of the return to civilian economy, and partly to give priority to the armament of the Air Force over that of the Army as a preparation for the imminent attack on England.² Thus by December there was, for the first time during the war, a major decline in certain stocks; by March 1942, to take one example, stocks of artillery ammunition had declined to one-third of the total in June 1941. It had been obvious in December 1941 that the defeat before Moscow, the Soviet counter-offensive, and the entry of the United States into the war, necessitated an 'all out effort' to recover lost ground and to prepare for a further great offensive against the

¹ These figures are taken from *Die deutsche Industrie im Kriege, 1939-1945* (Duncker & Humblot, Berlin, 1954), p. 33, by Dr. Rolf Wagenführ, head of the Statistical Department of the *Planungsamt* of the Ministry of Armaments and Munitions under Speer. An earlier version of the manuscript of this work came into the hands of Allied officials in the summer of 1945.

² Nur. T., XVI, 432. Because of Hitler's 'unbelievable optimism' the rescinding of this order was postponed until January 1942.

Soviet forces; but the outlook was still over-optimistic, and the 1942 offensive was looked forward to as a final settlement of the Russian problem. In June 1942 the German minister in Lisbon, in protesting to the Portuguese Government against any further concessions to the United Nations in the wolfram negotiations, said that Germany must get every possible ton she could from Portugal that year: next year she would have joined hands with the Japanese and would receive all she wanted from the East.

Speer's task in these circumstances was to ginger up production within the existing industrial framework, and in this he was successful; the general level of finished armament production had been raised by about 55 per cent. by July 1942. But this was not brought about by any fundamental changes in the structure of German industry; it was achieved without excessive difficulty by accelerated production in factories, the use of stocks of components which had accumulated during the previous reductions in output, and the postponement of new types. It appears to have come to a temporary halt owing to bottlenecks and the partial exhaustion of stocks in the industries supplying component parts, and also to the redesigning of some of the war material, including tanks. Production figures began to mount again after October 1942. It would thus seem that the assignment in 1942 was not different in general character from that of previous years, and it was not until after the failure of the second offensive in Russia with the Stalingrad defeat that the need was really grasped for a fundamental reorganization of the war economy to meet the now vast industrial effort of Germany's opponents.¹

The broad lines of this story were known to the Ministry, whose evaluation of the evidence was, however, curiously distorted by the persistent assumption that Germany was already using her resources to the full. The Ministry's six-monthly survey of the economic position of German Europe commented at the end of June 1942,

. . . the peak of armaments production in Germany was probably reached about the early months of 1941. Considerable stocks had been accumulated by the date of the Russian campaign and in October Hitler was still repeating a favourite boast of his—that he had been able to halt the production of certain kinds of munitions. The supply position is not thought to have changed greatly in the course of the winter campaign; there was, however, a note of anxiety for the future in his appeal, on 30th January 1942, for more weapons, more munitions and more means of transport to carry supplies to the front.

It also noted, more or less correctly, that 'today, by an immense effort of organizing and productive energy, Germany is beginning her second year's attack on Russia with forces little weaker in num-

¹ Wagenführ, *op. cit.*, pp. 66-7.

bers or equipment (with the important exception of aircraft) than she commanded a year ago'. The assumption that her resources were fully strained was, however, plainly stated in the further comment:

That astonishing feat has been achieved by reaching extremes in efficiency and economy in the use of materials and labour; by sweeping still more men and women into the machine and working them still harder; and by ruthless concentration on immediate wartime needs. It was a policy probably wise and necessary and well executed. It must, none the less, be paid for . . . Like an army in the later stages of a battle, Germany's economic resources are wholly mobilized and wholly engaged. They cannot be much further developed or differently employed until the strain on them has been relieved by victory or ended by defeat.

In making this prophecy the Ministry—or the official who drafted this passage¹—was guessing, and undoubtedly guessing wrong. There was still much slack to be taken up; the remarkable expansion of armaments production in Germany in 1943 and 1944 was to take the Ministry completely by surprise. The error is not, however, too difficult to understand. Throughout the earlier part of the war the Ministry had been trying to reconcile ample and generally accurate evidence as to the limits of German resources in manpower, raw materials, stocks, and factory capacity with the overwhelming victories: the reconciliation was found in the assumption that Germany's need, and will, to exploit all resources to the full must have produced complete economic mobilization for war by the spring of 1941. It must be remembered that although the 'Enemy Intelligence' Branch of the Ministry collected, and ferreted out, a remarkable number of Germany's industrial secrets it could not know much about trends and problems which were not clearly understood even by Germany's own experts, and which have become known to us since the war mainly through the studies of the *Planungsamt* of the Speer Ministry in 1944 and 1945. It was impossible, for instance, to know very much about inefficiencies or bottlenecks due to personal failures in administration or planning.² But however this may be, the Ministry's

¹ The optimistic note that crept into many of the Ministry's pronouncements often appears in introductory summaries and editorial introductions to detailed statements in which a more cautious or pessimistic note is sounded. Sometimes there are direct contradictions. The 'Editorial' to the six-monthly survey of 'the Economic Position in German Europe' (24th December 1942), says, 'On balance her production of weapons and munitions has doubtless fallen . . .' On the next page the opening sentence of survey reads, 'Production of armaments has been maintained on a formidable scale over the last six months'. These two statements can perhaps be reconciled, but there is certainly a difference of emphasis.

² Wagenführ, *op. cit.*, pp. 40-2; U.S.S.B.S., *Over-all Report (European War)* (1945), pp. 141-5. Wagenführ remarks (p. 62), 'Noch 1944 wusste wirklich niemand in Deutschland, wie viele Arbeitsstunden für einen Tiger-panzer aufgewendet werden müssten—und das zu einer Zeit, in der der Arbeitseinsatz zunehmend schwierigere Probleme stellte!'

assumption that Germany's war economy was fully stretched by 1942 was not seriously questioned, and was based mainly on two considerations—manpower and raw materials.

That Germany's labour position was one of increasing stringency was one of the Ministry's basic postulates throughout 1942, although it was always recognized that the problem was qualitative rather than quantitative, and that there were, numerically, ample reserves in female and foreign labour if these could be successfully trained and brought to work. The Ministry therefore pinned its main hopes on labour bottlenecks created by the drain on skilled and semi-skilled workers. At the end of the year 1941 it noted the large numbers of men lost from industry and agriculture to the German armed forces; it estimated that 2 million trained men had been withdrawn during the year, and had been replaced by the recruitment of an additional $1\frac{3}{4}$ –2 million workers from school-leavers, foreign workers, prisoners of war, and women, whose quality made them in general an unsatisfactory substitute for the losses. Arrangements were known to have been made in December 1941 to continue the practice of the two previous winters and to release men from the armed forces for the factories on a temporary basis; but on this occasion these arrangements could not be carried out except on a small scale for miners and agriculturalists. In the spring of 1942 there began a further heavy comb-out for the armed forces.¹ The Ministry did not feel itself to be particularly well-informed on the statistical position,² but its general picture is confirmed by post-war information. After the first Russian winter there were heavy demands for additional manpower, which were met with some difficulty, and after numerous readjustments satisfied for a time by the use of reserves of foreign labour. This process went on until the spring of 1943. The additional manpower which was necessary for the Russian campaign of the summer of 1942 placed a double strain on Germany's industrial labour pool, both because of the withdrawal of trained workers of military age, and because of the need for increased arms production,

¹ Speer noted that in March Hitler was 'still very agitated over the deficiency in the number of workers in the armaments industry', and gave orders that manpower for the armament and other industries working for the army should have priority over the other services. Speer (Hamburg) Documents, 16th March 1942, para. 12.

² It noted in December 1942 the absence of any reliable statistical data from German sources for 1942. Thus no detailed break-down of the numbers of foreign workers employed had been published since December 1941. On 4th August 1942 the *Frankfurter Zeitung* estimated that working prisoners and foreign workers together numbered nearly five millions. Six weeks later it advanced the figure to six millions. State Secretary Syrup's estimate in the *Reichsarbeitsblatt* in June 1942 of 1.5 million prisoners of war and 2.5 million civilian foreigners employed in Germany caused surprise; it was assumed that the figure of 1.5 millions excluded Russians, as the total would otherwise appear to be too small. Syrup explained that the smallness of the figure was due to the wastage among working prisoners, some of whom were being released all the time, while others were given the status of working civilians. In December 1942 the Ministry provisionally estimated the total number of foreign workers and prisoners as between 5.1 and 5.5 millions. See p. 399 below.

and the Ministry seems to have been correct in its conclusion that although numerical stability had been, with some difficulty, maintained, the effects of labour dilution were becoming marked by the end of the year. It noted the appointment in March 1942 of Fritz Sauckel, 'former Gauleiter of Thuringia and a notorious Nazi thug', to succeed Dr. Mansfeld as Controller of Labour Mobilization, and the significance of the Sauckel Decree of 13th June 1942, which put a temporary end to labour mobility in certain specified industries, and was followed three months later by a further decree of unlimited duration which covered women and juveniles as well as adult male labour. An Order with the effect of law issued by Sauckel on 28th July 1942 extended the penal provisions relating to breach of contract and other forms of labour discipline. More constructive were intensive training schemes in the metal and engineering industries, designed to mitigate the effects of the loss of skilled men to the forces; up to May 1942 about 580,000 workers, including 80,000 foreigners, had been given some kind of training or re-training in these industries. The Ministry believed that the admitted deficit of 600,000 agricultural workers which existed after the spring call-up had been met in the main by conscripted Russian and Polish labour, a high percentage of whom were women.

All that can really be said in criticism of the Ministry's views on the labour situation at this period is that it underestimated the extent to which, under the compulsion of necessity, the German authorities would be able to mobilize further reserves of labour power in 1943 and 1944. This does not mean, however, that the Ministry was unaware of the existence of these reserves. It recorded the fact that the Germans had been able to draw very little labour during 1942 from less essential industries, and it commented frequently on the limited utilization of woman power. We now know that German woman power was never fully mobilized at any stage of the war; and that, while in Great Britain the number of women in employment increased by about 45 per cent. during the war, in Germany the numbers remained practically unchanged. Reasons for this are varied. It has been attributed in part to the high percentage of young children in Germany as compared with other western countries, the difficulty of reversing pre-war propaganda to the effect that women's place was in the fields or the home, the fact that women for this reason did not constitute a reserve of semi-skilled industrial labour, and the unpopularity of the recruiting of women and the consequent resistance to mobilization measures in the lower party levels, which were most directly in touch with mass opinion. All these points are noted in the Ministry's records.¹

¹ The six-monthly reports of the Intelligence Branch frequently refer to this problem. 'Summary of Enemy Economic Developments' (29th December 1941), says, 'During the

In the Ministry's view, however, the main deterrent to the full utilization of European industrial capacity on behalf of the Axis was the shortage of certain raw materials rather than a shortage of labour on a European scale. Shortages of raw materials might, however, themselves be the result of bottlenecks in the skilled labour supply as well as of the blockade, and the Ministry was justified in its assumption that there was for this reason a permanent limit to the expansion of the raw-materials industries. In 1942 there were believed to be more or less serious raw material shortages in coal, oil, rubber, natural textiles, leather, and certain metals. The total consumption of hard coal in German Europe in 1941 was estimated at about 315 million tons (as compared with 350 millions in 1938). In Germany itself consumption had increased slightly since 1938, but there had been a reduction of some 40 million tons in the aggregate consumption of the occupied countries. Aggregate output of hard coal in German Europe had decreased from 326 million tons in 1938 to about 320 million tons in 1941. German Europe thus operated, it was argued, with a credit balance of about 5 million tons of hard coal in 1941, and the Ministry anticipated that this slight balance would not be maintained during 1942. In mid-summer of 1942 it had to admit that an unexpectedly large increase in Polish hard coal output had falsified this prophecy, and that there was still a small margin between output and the present severely restricted consumption; in December 1942 on the other hand it noted that production in the coal industry had after all deteriorated more rapidly than had seemed likely in the summer. Brown coal was still very important to Germany, but it seemed unlikely that any increase in the output of brown coal could be sufficiently rapid to offset the decline in that of hard coal.

In June 1942 the Ministry believed that the German oil position had declined during the previous six months and that there was 'no longer a cushion of free stocks to meet any differences between supply and demand'; in December it noted some further reduction in civilian consumption in both Germany and the dominated countries, with a slight increase in production, while stocks were believed to have been depleted to a point where distribution was becoming

early months of the war the number [of women] employed declined sharply. As a result of the great recruitment drive in the spring and summer of 1940, the number in employment was brought up to 300,000 above pre-war level . . . By the end of the year, the number of women in employment was 8.4 millions . . . Since the beginning of the Russian campaign there is evidence of a renewed drive for the recruitment of women and it is claimed that there are a million more in employment now than at the outbreak of war. Of the 700,000 recruited this year, some 300,000 or more would be school-leavers, 200,000 foreign women workers, while the majority of the remainder are married women doing part-time work only. In the early days of the war the system of direct conscription was applied to women for industrial work, but this system proved so unpopular, with women as well as with men, that it was largely dropped in favour of indirect methods of compulsion' (para. 35).

difficult. It was believed that Germany's stocks of certain metals, notably copper and nickel, would be exhausted during 1942 at the then rate of consumption, and that these shortages would necessitate adjustments 'expensive in effort, if not always in efficiency'. Deliveries of wolfram concentrates from Portugal and Spain were expected during 1942 to exceed those of 1941, and to be just adequate, with existing stocks, to meet the estimated demand of 6,000 tons. But this left little margin, and it was known that molybdenum was being used to replace the more limited tungsten supplies. German molybdenum supplies came mainly from the Norwegian Knaben mine, where strenuous efforts were being made to increase output. Zinc supplies were more than adequate, and could be substituted for copper and even aluminium; tin supplies seemed to be adequate; magnesium was still one of the most plentiful metals in Axis Europe; manganese-ore difficulties seemed to have been solved at the end of 1942 by the restoration work at the Nikopol mines in occupied Russia. Germany's iron and steel position still seemed strong enough to meet essential needs, although the Ministry noted towards the end of 1942 a sharp decline in Swedish exports in September and October as compared with the corresponding months of 1941, the cutting off of North African supplies (a loss of about 400,000 tons), a similar drop (about 400,000 tons) in Spanish ore exports, and decrees by Speer ordering the collection of scrap on a scale surpassing all previous efforts.¹

This summary of the Ministry of Economic Warfare's ideas, gathered from the voluminous papers of the Intelligence Branch, is perhaps sufficient to indicate the essentials of its estimate of Axis strength and weakness. The picture was of an economy achieving with difficulty the demands of a supreme war effort, with too slight a reserve of human or industrial resources to achieve much more. Raw material shortage seemed to be the main handicap to economic expansion, and certainly the one most vulnerable to economic-warfare attack; it was necessary, therefore, to relax none of the existing forms of pressure on the neutrals, and also to ensure that Germany found no escape from her difficulties by other means, such as blockade running to and from the Far East. The Ministry's figures for German stocks and output were generally sound, and although Germany was much further from economic disaster than the Ministry imagined, the relaxing of Allied pressure would no doubt have been very welcome to Speer and his harassed advisers.

It was, however, the startling possibility of a linking of Italo-

¹ These M.E.W. estimates can be compared with certain of the official German import figures: see Appendix I.

German and Japanese forces which gave the Ministry its greatest immediate concern. The extent of this danger had been brought home to everyone in the spring of 1942 by the rapid successes of Japan and the apparently precarious situation of the Russian forces. The link-up might be achieved through Siberia or through the Middle East and South-East Asia or—and this seemed more probable and not much less detrimental to the blockade—by effective blockade running between Europe and the Far East. It was at this point that Lord Selborne succeeded Mr. Dalton as Minister of Economic Warfare and one of his first actions was to send to his colleagues on 21st March 1942 a memorandum on the aims and problems of Allied economic-warfare strategy in the immediate future. This put the prevention of blockade running between the two areas of enemy domination as the most important of these aims, and gave it a prominence which can only be understood if the assumption of serious Axis raw-material shortages in Europe is remembered.

The memorandum set out graphically the dangers of the new situation. By the end of 1941 the British blockade measures, based on the elaboration since June 1940 of the machinery for control at source, had been adequate, with very little naval assistance, to deny to Germany practically all ocean-borne supplies except those carried in enemy or Vichy blockade runners or in Vichy ships in convoy. Enemy blockade running, of which there had been a recrudescence in the summer of 1941, had been stopped for the moment by naval action. But Japan's entry into the war and her subsequent conquests had created a new enemy area of great size and economic wealth, and had placed at the disposal of Japan supplies of raw materials sufficient to make good most of her own long-term deficiencies and also most of the principal existing deficiencies of Germany. At the same time it had greatly increased the Japanese need for a number of manufactured and semi-manufactured products obtainable from Europe.

Thus, the principal problem of blockade, which has hitherto been the denial of neutral resources to one enemy, has become in 1942 the denial to two enemies of access to the products of each other's dominions. This can only be done by the fighting services. So once again a major part of the blockade will depend directly on naval interception, assisted probably more than in the earlier period by air reconnaissance and attack.

Contact between the two enemy worlds could be established by four possible routes. One, across Siberia, was denied by Russian arms. The second, by Suez or the Persian Gulf, was denied by the British hold on the Middle East. The third and fourth, round the Cape of Good Hope and Cape Horn, were, however, possible, though pre-

carious, to blockade runners and there were a number of enemy ships capable of making either voyage without refuelling. The Cape Horn route involved a 17,000 mile passage without refuelling, but one blockade runner had already made the passage to Europe successfully, and another was believed to be loading for an outward voyage. The Cape of Good Hope route involved a voyage of 11,000 miles from Singapore, but at this date it had not, as far as was known, been used by enemy or Vichy ships since Japan's entry into the war. Metropolitan France and French colonial possessions had clearly acquired greater significance as a link between the two enemy worlds and the importance of 'that enigmatic factor, the French fleet', had increased; French West Africa, French North Africa, and the Atlantic coast of Metropolitan France provided alternative terminal ports more or less under Axis control, and Madagascar was the only possible refuelling station on the Singapore route. The Atlantic ports of Northern Spain could also be used for transshipment without serious loss. A few blockade runners (perhaps a dozen cargoes) would, said the memorandum, relieve Germany's essential needs for 1942 in rubber, wolfram, tin, hemp, and wool (if the Japanese conquered Australia?) and they might take back to Japan ball-bearings, precision instruments, and machine tools sufficient to be of real assistance in the expansion of her industry.

A still graver situation would arise if British and American naval forces were denied appropriate bases on the South American and African coasts. These were not only necessary to prevent successful and frequent blockade running, but the South African ports in particular were even more important as safeguarding the supply routes linking Britain and the United States with Australia, Egypt, and the Middle East. And it was essential that these routes should be held at both ends. 'Practically all the supplies for the Allied front which stretches from Libya to Afghanistan enter through two relatively narrow inlets—the Red Sea and the Persian Gulf—and almost all the oil on which that front, India, and East Africa depend, comes out through the latter channel. Reverses which cut communications between Egypt and the Cape, or Egypt and the Persian Gulf, by endangering our position in the Middle East, would give the enemy the hope of opening the direct route from the Mediterranean to the Far East.'

Even without these disasters, however, serious blows could be struck at Allied war economy, which was already facing economic war of the same kind and scale as that which had hitherto been waged against Germany. Japanese successes had already denied to the Allies important supplies of rubber, tin, wolfram, chrome, oil, and food, and, if they continued, might leave Latin America and Africa as the Allies' only transoceanic sources of supply. The enemy,

and in particular the Japanese, were believed to be fully conscious of the possibilities of economic war and essential supplies were likely to be objectives of special attack. Even the vital supplies of South America, which was still relatively remote from the battle, were not immune from attack from within, by methods ranging from obstruction and sabotage to armed revolt by the large and well-organized enemy minorities in those countries. It was thought that the protection of those supplies and of access to them, as well as of the routes by which they moved, had also become a matter 'of high importance and perhaps of considerable urgency'.

Put in this rather dramatic way the situation certainly had its alarming features, for in March 1942 a Russian collapse and an extension of Japanese conquests were possibilities still; they did not become improbabilities until the end of the year, and in the meantime the nightmare of complete enemy self-sufficiency and of direct contact remained. Japan's conquests, wrote Lord Selborne, 'have already secured to her the raw materials she needs except lead (which is available in Burma and Australia), wool (which is available in Australia, Chile, Peru, and Argentina), cotton (which is available in India, Peru, and Brazil), and copper (which is available in Chile and Peru)'. With all this, the Minister's views were not unduly pessimistic, and he thought that 'the scope and possibilities of our economic offensive have widened'; in particular, night bombing, the vulnerability and increased importance of sea communication to the Axis powers, daylight raiding, encouragement of resistance movements, and the changing attitude of the European neutrals, all provided opportunities for more successful attack than before. The five European neutrals—Sweden, Switzerland, Turkey, Portugal, and Spain—might also, and for two reasons, prove more accommodating. Hitherto their attitude had been governed by the menace of German military power; but now, in March 1942, although the threat remained it was distinctly less, for Germany, weakened and pre-occupied by the Russian campaign, would not willingly extend the area of her occupation. In the second place, the bargaining position of the Allies was strengthened by their vastly increased supply programmes and their claims on the diminishing pool of available merchant shipping; the neutrals could no longer satisfy their requirements merely by obtaining the right to import (i.e. navicerts), but must be prepared to grant economic advantages to the Allies in return for the supplies which the Allies could only make available with some sacrifice to themselves. Lord Selborne thus looked hopefully on the prospect of forcing the neutrals to deny European resources to the enemy and of securing them for the Allies, and at the same time it might be possible to put an end to the absurd situation in which the Allies had had to buy from neutrals at fan-

tastically inflated prices, whilst supplying their needs at the prices ruling in the free world. On balance, the relative influence of the two sides on the neutrals had not greatly changed; but it had become unstable and might vary greatly and suddenly in either direction in the course of the next few months. He finally set out under six heads the aims of Allied economic-warfare strategy in the immediate future.

1. To prevent the two enemy dominions from establishing economic exchange by blockade running; still more, of course, to prevent their opening regular communications by land or sea.
2. To develop the increased possibilities of economic pressure on the neutral border States adjacent to German Europe and on Vichy French colonies to the fullest extent which the military situation permits, with a view both to obtaining supplies and to denying to the enemy resources which are becoming more than ever essential to him.
3. To develop within occupied countries both in German Europe and in the Far East all forms of passive and active resistance to economic exploitation.
4. To develop methods for directing against the increasing weakness of Germany's war potential attack from the air which shall really be effective.
5. To devise combined operations against the most important accessible economic targets in enemy-occupied territory and against his lines of communication.
6. To defend important sources of supply and access to them, including the supplies of South America.

The underlying assumption was that the Allied position, and with it the blockade, had received a net accession of strength with Russian and American participation, but that the Axis might secure decisive results before the full strength of the Allies could be brought to bear.

Of Lord Selborne's six aims the first two are those which directly concerned the Ministry of Economic Warfare; the third, fourth, and fifth, which referred to air and military attack, sabotage, and political warfare, were not its direct or exclusive responsibility, although it could contribute substantially to each.¹ The sixth included some economic-warfare aspects, particularly in blacklisting. Lord Selborne's programme is a reflexion of the prominent part that economic warfare measures were still playing in the British Government's broader strategical planning. Although Neville Chamberlain's hopes of a collapse of the enemy's home front, through the conviction of

¹ Mr. Dalton, and Lord Selborne after him, were the Ministers in charge of S.O.E., with headquarters with the Ministry in Berkeley Square House. An account of its work is given in Mr. Dalton's memoirs, *The Fateful Years* (chap. XXVI). See also J. R. M. Butler, *Grand Strategy, II* (H.M.S.O., 1957), pp. 260-1.

the Germans that they could not win, had disappeared as soon as Germany showed so abundantly in the summer of 1940 that she could win,¹ the belief remained that her military power could be decisively sapped before invasion. This softening-up programme, elaborated in the summer of 1940,² had been outlined to the American military, naval, and air experts for the first time in August and September 1940, when it was explained that the foundation of British strategy was to wear down Germany by the ever-increasing economic pressure of air bombardment and blockade, and especially with a continuous and ruthless offensive against her oil supplies. The elimination of Italy was also regarded as a strategic aim of the first importance: her collapse would largely remove the threat to the Middle East, and free Britain's hand at sea against Japan, 'while at the same time increasing the effectiveness of the blockade against Germany'.³ The idea of a substantial softening-up of the European enemy before invasion was accepted by the United States Government throughout 1941; it was set out in the agreed programme known as the ABC-I Report, which was drawn up after the discussions between American and British experts in Washington from January to April. The strategic aims were there defined as follows:

- (a) Application of economic pressure by naval, land, and air forces and all other means, including the control of commodities at their source by diplomatic and financial measures.
- (b) A sustained air offensive against German Military power, supplemented by air offensives against other regions under enemy control which contribute to that power.
- (c) The early elimination of Italy as an active partner in the Axis.
- (d) The employment of the air, land, and naval forces of the Associated Powers, at every opportunity, in raids and minor offensives against Axis Military strength.
- (e) The support of neutrals, and of Allies of the United Kingdom, Associates of the United States, and populations in Axis-occupied territory in resistance to the Axis Powers.
- (f) The building up of the necessary forces for an eventual offensive against Germany.
- (g) The capture of positions from which to launch the eventual offensive.⁴

¹ 'But what I hope for is not a military victory—I very much doubt the feasibility of that—but a collapse of the German home front. For that it is necessary to convince the Germans that they cannot win. And U.S.A. might at the right moment help there.' (10th September 1939), Keith Feiling, *The Life of Neville Chamberlain* (Macmillan, London, 1946), p. 418.

² J. R. M. Butler, *op. cit.*, ii, 209-17; E.B., i, 60-2, 420.

³ M. Matloff and E. M. Snell, *Strategic Planning for Coalition Warfare, 1941-1942* (United States Army in World War II, Army Department, Washington, D.C., 1953), pp. 21-4; Butler, *op. cit.*, ii, 23.

⁴ Matloff and Snell, *op. cit.*, p. 44; Butler, *op. cit.*, ii, 425; cf. 548.

These were, of course, hypothetical proposals, to meet the eventuality of the entry of the United States into the war. But they were repeated with no basic change by Mr. Churchill at the Arcadia Conference of December 1941: he again stated the British strategical plans in terms of 'closing and tightening the ring round Germany' before even limited offensives on the Continent, which would probably not be possible before 1943. This meant the strengthening of the Allied position 'in a line running roughly as follows: Archangel-Black Sea-Anatolia-the Northern Seaboard of the Mediterranean-the Western Seaboard of Europe', together with the 'wearing down and undermining German resistance by air bombardment, blockade, subversive activities and propaganda'.¹

While this is evidence that much was still expected of the blockade it does not tell us how far blockade, and economic warfare measures generally, had fallen back relatively to other methods of waging war in the estimation of the British and United States Governments. By December 1941 there had certainly been some retreat from the desperately optimistic formulations of 1940. In the summer of 1940 the Ministry of Economic Warfare had been convinced, and had done its best to convince others, that Germany was highly vulnerable to economic attack. Accepting this view (which had distinguished supporters outside the Ministry), the Chiefs of Staff had told the War Cabinet that 'upon the economic factor depends our only hope of bringing about the downfall of Germany', and by linking bombing with blockade as Britain's chief weapons they had brought into operation the full programme of the pre-war economic warfare planners, who had rested their main hopes on combining blockade with successful attack 'behind the enemy's lines'. The Ministry's experts certainly exaggerated the weaknesses of German economy. But they never suggested that the walls of Jericho would fall to the mere blast of a trumpet: it was the double exaggeration, of German vulnerability and of Britain's power to exploit it, that explains their peculiarly insistent optimism.² Vastly exaggerated estimates of the accuracy and destructive power of the bomber—British or foreign—were widespread in 1939 and 1940; pre-war memories of Guernica, German propaganda, plans for wholesale evacuation of city populations, reflected and encouraged the anticipation of quick and

¹ Matloff and Snell, *op. cit.*, pp. 100-1; W. S. Churchill, *The Grand Alliance* (London, 1950), pp. 582-5.

² Together perhaps with a patriotic desire to look on the bright side of things. Reference has been made above to the part played by a representative of M.E.W. in the anxious discussions in May 1940 with the Directors of Plans of the service departments, which led to the report on plans to meet 'A Certain Eventuality'. These discussions are referred to in E.B., i, 60-2, 420-1. He decided late one night, after listening to somewhat gloomy discussions about the future, to give his colleagues a lecture on history. He spoke at length about the many 'darkest hours in English history', all successfully survived; he claims that his service colleagues were visibly comforted.

dreadful destruction when the bombers were at last sent out. There had been no bombing during the phoney-war period: in May 1940, when the first British bomber offensive began, it was still the general view that while bombing was a double-edged weapon it might be used with devastating effect on the right German industrial targets. The selected target was the oil industry, in view of the serious German stock position; and post-war evidence shows that if anything the British experts erred on the side of caution in insisting on its perilous weakness.

How far the Air Staff shared the general optimism about the bombing prospects is difficult to say.¹ It evidently did not believe that the bombing offensive could be fully effective until the arrival of a heavier bomber force (supplied later by the four-engined Lancasters and Halifaxes), but it estimated in December 1940 that the 17 major German synthetic oil plants could be destroyed within four months. The first phase of air attack on Germany, starting on 15th May 1940, did culminate in the summer of 1941 in a four months' programme of raids on moonlit nights on the main synthetic oil plants, but disconcerting intelligence reports soon showed that this heavy bombing had done little damage either to the oil installations or to other targets. A second bomber offensive, which ran from July to December 1941, gave particular attention to inland transport, including railway centres in the Ruhr, but during the following months it was found that these attacks too had done little vital damage. However, these relatively disappointing activities were followed during 1942 by the more massive attacks of the thousand-bomber type, with both morale and industry as intended victims—evidence that there was no abandonment as yet of faith in the softening-up technique. We have seen that the Ministry's Intelligence Branch believed German economy to be near breaking point.² Altogether then it would seem that hopes of major results from blockade and bombing still ran high in London. What also seems clear is that in 1941 and 1942 economic warfare did not have the same importance in American eyes as a direct contribution to the defeat of the German armed forces.³ The long debate between the Chiefs of Staff and heads of the two governments during 1942 as to the best means of coming to grips with the enemy seems to show some fear on the American side that the British programme of blockade, air bombardment, and peripheral operations would mean undue delay in the launching of ROUNDUP (the plan for a cross-Channel invasion of France in 1943): in short, a fear that the British

¹ Pending the publication of the official history of the bomber offensive by Sir Charles Webster and Dr. N. Frankland.

² P. 7 above; cf. the Joint Planning Staff's more cautious view: Butler, ii, 548.

³ To some extent, and in some quarters, the position seems to have been reversed in 1943. See p. 387 below.

still relied too greatly on the 'indirect strategy' to effect what the Americans believed could be achieved by direct military action only, and in only one area, namely northern France. The invasion of French North Africa (TORCH) was, however, agreed to by both Governments in July 1942, and both recognized that ROUNDUP was impossible before 1943 at the earliest; both agreed too that blockade should be included with air operations as an exception to the defensive strategy on the European continent.

Thus the blockade continued to have both defensive and offensive uses; while the Ministry continued to see as its most urgent task the prevention of a linking of German and Japanese economic forces, the Allied Chiefs of Staff saw blockade as a useful but perhaps over-rated preliminary to the serious business of invasion. We shall follow the detailed story of the more relevant of the Ministry of Economic Warfare's operations in 1941 and 1942 in subsequent chapters. The results, as we have already remarked, were not spectacular.

As our story is so largely one of Anglo-American cooperation it must begin with an examination of the mingling and occasional milling of two streams of ideas on blockade policy; and we must be alive throughout to markedly differing conceptions of the purpose and use of economic weapons in warfare. These Anglo-American differences found frequent expression in the attempts of the blockade authorities in Washington and London to agree on joint programmes, and they had not been resolved by the end of 1942. Their influence on Allied policy will be examined in general terms in the next chapter, and we shall then discuss in turn the application of economic warfare measures in the various fields.

The first of these (Chapter III) must be the Far East, where the new American economic warfare methods based on Hemisphere defence and control at source had their earliest and most convincing justification. The problem of the Far East until the summer of 1941 had been, in British eyes, to regulate Japan's imports so as to weaken her war potential without stimulating her to rash action; after July 1941 the United States policy, which the British and Netherlands Governments carefully supported, was to apply economic pressure drastically in order to ensure her compliance with the State Department's demands. Japan accordingly was the first neutral to experience the application on a really formidable scale of Foreign Funds Control as the most effective of America's economic weapons. The brilliance of the operation was marred only by the fact that the patient did not survive it: the Japanese attack in December meant the death of both the earlier British and the later American plans for a *modus vivendi*. While the Japanese forces were being carried

triumphantly forward on the tides of victory the aim of Anglo-American blockade policy in the Pacific was obstructive rather than offensive; action was limited in the main to the cutting off of supplies from Latin America and the prevention of blockade running from Europe. At the end of 1942 the Ministry could see little cause for optimism beyond the reflexion that shipping shortages must have prevented any appreciable Japanese accumulation of stocks. However, as soon as the war began to turn in the Allies' favour Japan proved dreadfully vulnerable to economic counter-attack. The paradox in the Pacific is that while the employment of the newest American methods of economic pressure was the prelude to Japan's entry into the war, it was the application of highly traditional methods which nearly drove her out of it by economic strangulation. This happened after 1943, when her merchant shipping, on which her economic life depended, was sunk wholesale by the American forces.

After this the main field of United States economic warfare policy was Latin America, which saw the application before the end of 1941 of her other two characteristic weapons—pre-emption and listing. Her Latin American policy had the effect of supplementing and strengthening the more traditional methods whereby the blockade machinery established by the Ministry of Economic Warfare regulated the flow of Latin American products to the European neutrals. An account of the machinery of the blockade at this point will thus provide a link between the Americas and Europe, and the remaining chapters of Part I will deal with the joint pressure of the two governments on the European neutrals, the problem of relief, and the economic preliminaries of the invasion of French North Africa.

To the basic blockade system of normal trade and contraband control the British Government had added, after the fall of France, compulsory rationing and the policy of controlled assistance to deserving neutrals, and the latter formed the most distinctive contribution of the Dalton era to the development of blockade policy in Europe. These four elements were combined in a complex but flexible system which far transcended the narrower or more immediate objects of blockade, and were often misunderstood by the Americans as a result. Although the Ministry had usually been prepared, during the first winter of the war, to agree that the adjacent neutrals should continue to carry on approximately their normal pre-war trade with Germany in native products it had regarded this arrangement as a matter of expediency, and was quite prepared for any bargain or pressure which would reduce its value to Germany. As the German Government had accepted and insisted on 'normal trade' before the war¹ the adoption of this principle by

¹ German material which has become available since the publication of the first volume of this work illustrates the firmness of German policy on this point. On 12th April 1939

neutral governments in the war trade agreements did not represent any particular triumph for British policy. The smaller neutrals were too afraid of Germany to defy her, and were for the most part only too willing to accept 'normal trade' as a dignified and not unprofitable basis for their neutrality. There was a tendency, particularly in the Scandinavian countries, to treat it as a fundamental principle of international conduct when they were hard pressed in bargaining with either side;¹ but in fact the neutrals themselves showed no consistency in the matter. Turkey had supplied 53 per cent. of Germany's chrome imports before the war; in January 1940 she promised the whole of her chrome exports to Great Britain and France for two years, and then in October 1941 promised 90,000 tons a year to Germany in 1943 and 1944. Luxembourg in September 1939 proposed in the interests of 'strict neutrality' to discontinue all iron and steel exports to belligerents during the course of the war, but was speedily compelled by German pressure to accept the 'normal trade' principle.² Dr. Salazar on the other hand found a principle of economic neutrality in the equalization of wartime sales to the belligerents rather than in their limitation to a pre-war figure.³ There was, therefore, no reason whatsoever why the Ministry should feel itself compelled to acquiesce in any neutral exports to the enemy, and it was always prepared to prevent them by pre-emption, blacklisting, the withholding of supplies, or political pressure if

Weizsäcker, the German State Secretary, proposed the following formula to the Swedish minister in Berlin; 'The Swedish Government declare that they will, wherever it is the concern of the Government, ensure that the normal Swedish exports to Germany suffer no prejudice in the event of war' (*Documents on German Foreign Policy, 1918-1945*, Ser. D., vol. vi, no. 187). The German-Danish non-aggression treaty of 31st May 1939 provided that 'if the normal exchange and transit of goods continues between the Contracting Party not involved in the conflict and the Third Power, it will therefore not be considered as inadmissible support' (*ibid.*, no. 461). The four Scandinavian states accepted the principle of 'normal trade' before the outbreak of war, and publicly affirmed the principle after the Copenhagen meeting (18th, 19th September 1939). As the principle had already been formally accepted by the British Government in its draft war-trade-agreement proposals, the declaration of the four powers was mainly significant as a pledge against profiteering or against concessions to belligerents according to the fortunes of war (cf. E.B., I, 139-42, 665). It should be noted that the German conception of normal trade mentioned above assumed the re-export of imported goods to Germany by the neutral.

¹ Cf. Nils Ørvik, *Norge i Brennpunktet* (Oslo, J. G. Tanum, 1953), the official Norwegian history of Norway's economic foreign policy, 1939-1940, chap. iii, Sections 1 and 5.

² A German Pro Memoria of 6th September to Minister of State Dupong said that 'continuation of normal economic relations is not only a right but also an obligation arising from neutrality. Germany . . . will raise no objection against Luxembourg's continuing her normal interchange and transit of goods with respect to the powers hostile to Germany'. A memorandum for the German minister, Otto von Radowitz, suggested that 'if Luxembourg should raise the objection that France might perhaps stop the normal iron ore deliveries to Luxembourg, the answer to be given is that this would be a violation of neutrality on the part of France, which Luxembourg would have to settle with France . . .' It was also argued that it would be her duty to use her own iron ore to keep up exports to Germany, and finally Germany if necessary would endeavour to make supplies available. *Documents on German Foreign Policy, 1918-1945*, Ser. D., vol. viii, nos. 17, 18.

³ With a tendency to balance political favours to the United Nations by economic advantages to the Axis.

circumstances warranted this action. Some at least of the Americans did not, however, believe this. They appear to have thought that by 1941 the Ministry and the British Government generally had fallen into the habit of acquiescing in neutral trade with Germany, and were reluctant to agree to the use of the blockade to prevent the neutrals from exporting indigenous products. They regarded themselves as the proponents of a bold and unprecedented policy: the use of 'a blockade outside Europe to compel non-belligerent governments to establish a sort of blockade of their own between their countries and Germany'.¹

We shall have to come back to this difference of conception at many points in later chapters, and there will be an attempt in the next chapter to analyse in more detail the American approach to economic warfare. It can be said at once, however, that there was nothing very novel in the withholding of supplies as a means of pressure, and no reluctance on the British side to do so if the plan would work. Far from being unprecedented it was the policy which the United States Government itself had followed in 1917-18, when practically all export licences for Scandinavia and Holland had been refused in order to force these neutrals to restrict the export of their own produce to Germany.² British pressure at that time had taken a number of forms; it included, for example, the cutting off of supplies of fodder and fertilizers to Holland and Denmark in 1917 and 1918, the suspension of coal exports to Holland, and the like. To take a more recent case: in the second World War, while the United States was still neutral, the British Government in September 1941 withdrew facilities for practically all Swiss imports with the exception of foodstuffs, fodders, and oils and fats for soapmaking. This was in reply to the Swiss-German agreement of 18th July 1941, under which the Swiss Government had substantially increased its economic aid to Germany.³ Thus the bold new policy was not really unique. The differences between British and United States policy in this connexion were, however, extensive, and although they may have been increased by British caution and American impatience they arose essentially from the greater complexity of Britain's relations with the European neutrals, rather than from any difference of theory.

¹ These ideas are expounded in these words in the interesting book by two former officials of B.E.W.: D. L. Gordon and R. Dangerfield, *The Hidden Weapon* (New York, 1947), pp. 70-2. By the expression 'blockade outside Europe' the authors mean the cutting off of supplies from American and other overseas sources as a means of pressure.

² This application of economic pressure is elaborately described in T. A. Bailey, *The Policy of the United States towards the Neutrals* (1942), chaps. 4-8. The United States, unlike the European belligerents, regarded its Trading with the Enemy Act of 6th October 1917 as an act of permanent legislation which could be applied whenever the United States again became involved in war. Martin Domke, *Trading with the Enemy in World War II* (New York, 1943), p. 2.

³ See below, chap. VII.

The position of the United States as a belligerent differed from that of the United Kingdom on two aspects of blockade policy. On the one hand the United States Government had never committed itself very precisely, one way or the other, on many aspects of belligerent rights of blockade; on the other she was in a much stronger position to interfere with neutral supplies by purely domestic action, without having to rely on belligerent rights at all. The British Government, having had so often in the past to use her navy for blockade purposes in European waters, found it necessary to claim and exercise a wide range of belligerent rights; expediency and tradition called for a due regard for the corresponding rights of neutrals. We shall see in the next chapter that the United States Government preferred after Pearl Harbour to leave the conduct of the blockade to the British.¹ It could, however, cut off many neutral supplies—particularly of oil—simply by refusing export licences or loading facilities; whereas for the British to cut off supplies would often mean British naval interference with goods going to a neutral from a third state. Apart from this there were more immediate reasons for British caution towards the European neutrals.

Great Britain was, in the first place, dependent on each of the five surviving neutrals (including even Switzerland) for certain important imports. In the second place she found them (and particularly Sweden and Switzerland) a valuable source of military and other secret intelligence. In the third place, knowing their vulnerability to German attack, and remembering the ease with which Norway, Denmark, Rumania, Yugoslavia, and the rest had been overwhelmed, she saw no advantage, at this stage of the war, in forcing them into an economic breach with Germany and a German occupation which might lead to greater advantage for German industry; this had been conspicuously the result in the case of Rumania and there was still a lot to be said for arrangements which gave Germany no more than the pre-war level of normal trade. Nor was it to the Allied interest that the remaining neutrals should be completely incorporated in the Axis economic system, even if they retained their political independence. Then, fourthly, the British Government had committed itself to certain longer-term and more constructive policies than those of the war trade agreements and compulsory rationing; Spain was the most conspicuous example of this type of 'conditional assistance' under which loans and the supplying of wheat, oil, and other necessities were intended to wean her from dependence on Axis economy. These longer-term policies called for relatively stable programmes, and were not easy to reconcile with sudden demands from Washington for British acquiescence in an embargo on oil or hides or wheat. The British Government also had

¹ See especially pp. 49-50.

good reasons on political grounds for not forcing her economic demands to the point of an open breach with the neutrals; she was the ally of Portugal and Turkey, and Switzerland became the protecting power after the United States entry into the war.

To complete the picture we must add that it grossly simplifies the whole problem to speak merely in terms of ardent (if somewhat ingenuous) Americans and experienced (if somewhat hidebound) Britishers. As it happened the position of the two powers was to some extent reversed in Latin America. Here it was the United States, who, having taken the lead, found herself striving to maintain the goodwill of her southern neighbours with their varying degrees of touchiness, economic usefulness, and belligerency; while there were times when the British blockade authorities called impatiently for bolder and less complicated procedures.¹ And furthermore the bolder or brasher spirits of B.E.W. and F.E.A. fought their main battles with the professionals of the State Department rather than with the British, while in London the Ministry's gestures of toughness were restrained on occasion by the Foreign Office. Moreover, if there were differences of approach, the American conception of economic-warfare possibilities was nevertheless as sanguine as the British in its belief in the vulnerability of German economy. But this sharing of preconceptions, while making for ultimate agreement on economic-warfare strategy, seems rather to have encouraged differences of opinion on tactics.

Until the spring of 1942 the United States authorities were prepared for the most part to follow the lead of the Ministry in these cases, although their inclinations were shown in two cases in the early months of the year, when imports of oil into Spain and of rubber, hides, skins, and petroleum into Sweden dwindled suddenly and without warning. The formulation of an agreed American policy was delayed for some months after this by inter-departmental disputation in Washington which seemed likely, however, to lead to ever more drastic restrictions on neutral imports. In this domestic struggle the intransigent rôle was played by the service departments, while the State Department was generally more inclined to conciliation than the Board of Economic Warfare. There was a somewhat similar clash in the field of pre-emption between the more adventurous tendencies of the Board and the more cautious financial policy

¹ E.g., in such matters as listing and the elimination of enemy insurance interests. See pp. 147-8 below. Reviewing the position in Latin America during World War II, Mr. William L. Clayton told a sub-committee of the Senate Committee on Military Affairs on 25th June 1945: 'The Department of State, throughout this period, has had to take full account of many factors which make the eradication of Axis influence in the American republics a difficult and arduous job. In the first place, it was necessary to avoid putting the United States in the position of the whipcracking "colossus of the North" . . . In the second place, we have had to understand problems which do not appear to be very important when one is thousands of miles away, but which are seen to be very serious when one is on the scene.'

of the Reconstruction Finance Corporation. Circumstances made Sweden the chief object of American pressure at this stage: this was partly because the Swedish export of some 10,000,000 tons of iron ore annually was the biggest and most obvious example of neutral assistance to the Axis economy, partly because after the summer of 1942 plans for the invasion of French North Africa led even the service departments to appreciate the need for some caution in dealings with Spain, Portugal, and Vichy France. Spain, nevertheless, was in the bad books of the State Department until July 1942. While the Ministry was quite alive to the bargaining advantages of the Allied control of supplies and shipping, it was less sanguine than the Americans as to the possibility of results during a phase of the war when the tide had in no sense begun to turn in the Allies' favour.

CHAPTER II

THE BASES OF ANGLO-AMERICAN CO-OPERATION

1941-2

(i)

Economic aid short of war

WITH the freezing of Japanese assets by the United States Government in July 1941 the policy of all aid to the democracies short of war became a policy of all possible economic obstruction of the opponents of the democracies even at the risk of war. But the United States was still a neutral, and great ingenuity was needed in devising methods of economic pressure and defence which made no appeal to traditional or international doctrines of belligerent rights. The growing body of administrative orders and domestic legislation which embodied this system was accordingly based as far as possible on the defence of the interests of the American republics in the Western Hemisphere, and although the formal outbreak of war in December 1941 was followed by bold American action in the economic-warfare field it did not lead to any essential change in this basic conception.

Here was a difference of approach to economic-warfare problems which was to continue throughout the war, and it is not easy to decide how far it was merely incidental to the development of United States' procedures while she was still a neutral.¹ The fact that when she found herself at war she did not substantially alter them, although their success depended in large measure on the application of the more orthodox British blockade measures, recalls some features of her policy in 1917-18: after entering the first World War she had felt unable to adopt certain practices (such as the right of search) which she had denounced as a neutral, although she proceeded to apply the blockade in other directions with greater vigour

¹ The United States Government has not undertaken the preparation of an official history of its economic-warfare activities in World War II. There is a useful sketch in *The United States at War, Development and Administration of the War Program by the Federal Government* (Washington: Bureau of the Budget, 1946), especially pp. 60-9, 84-95, 403-28.

and less political discretion than the British.¹ British officials in Washington during 1942 and 1943 were aware that important elements in the United States Administration felt that they had developed a new doctrine of economic warfare independent of that of the British, whose thinking was still based on the continuing adjustment of belligerent and neutral rights. No doubt there was also some desire to play the game according to America's own rules, and a reluctance to follow in British footsteps. For whatever reason the differences continued; and it seemed to the Ministry of Economic Warfare that the policy of opportunism which had served the United States well in 1941 was becoming in some measure an obstacle to the development of consistent and well-administered policies in 1942.

As to the value of United States help to the blockade before Pearl Harbour there could, however, be no doubt. We have seen² that for the first nine months after the fall of France it was primarily negative, taking the form of acquiescence in British plans for control 'at source', and that the passage of the Lease-Lend bill in March 1941 cleared the way for more positive forms of help. To be fully effective the British plans—compulsory navicerting enforced by the shipwarrant scheme and naval interception—needed to be reinforced by export-licensing in the American republics, the freezing of Axis assets in the Americas, pre-emption (particularly in Latin America) of strategic commodities, and naval action to intercept blockade runners in certain vital areas such as the Caribbean and the approaches to the Panama Canal. In February 1941 preliminary proposals had been made by the State Department to five Latin American countries, primarily with a view to the control of supplies to African and Far Eastern ports,³ and there were indications that in due course pre-emptive—or in the American terminology 'preclusive'—purchases on a massive scale would be undertaken by the United States throughout Latin America. Progress, it is true, was at first slow, and the State Department, through Mr. Sumner Welles, put up a dogged resistance to British plans for naval interception in the Caribbean. The difficulties of preclusive purchasing arose partly from the absence of any United States agency similar to the United Kingdom Commercial Corporation which could buy at the price needed by conditions of the market and resell to user departments at controlled prices. In Europe the U.K.C.C. was carrying out its programme of pre-emptive purchases mainly inside the blockaded area and in direct competition with German agencies, and the British Government was prepared to accept the inevitable rise in the level of prices

¹ T. A. Bailey, *The Policy of the United States towards the Neutrals* (Baltimore, 1942), p. 410, and chaps. 4-9 generally. Cf. Marion C. Siney, *The Allied Blockade of Germany, 1914-1916* (Michigan, 1957), pp. 146-7, 252-3.

² E.B., i, chap. XIV.

³ E.B., i, 496.

in the hope of exhausting the German means of making payment. There was at this stage no comparable American organization with permission and funds to force up prices in Central and South America, and in any case the United States officials, who knew that they were or would be the only buyers in the market, did not see why they should pay fancy prices solely to keep goods out of German or Japanese hands.

But things began to move after the passage of the Lease-Lend bill, and it was in order to hasten the coordination of policies that Mr. Dalton decided to send Mr. Noel F. (now Sir Noel) Hall, one of the joint Directors of the Ministry, to take charge of the economic-warfare activities of the British embassy in Washington from the end of March. During the next six months the United States Government took surprisingly bold action in certain fields of economic warfare, and in the process showed its skill in avoiding reliance on the traditional belligerent rights; at the same time it undoubtedly exaggerated the self-sufficiency of its own procedures. In a survey of his mission written in 1943, Mr. Noel Hall remarked of these early developments,

While the State Department was willing to ask us for the benefit of our experience and to exchange information with us, they seldom replied to requests for assistance in exactly the way in which we had hoped. After hearing the facts, they considered the issue in their own way and formulated their own plans. My own task became increasingly that of explaining the differences in method and principle between London and Washington that steadily emerged, and in ensuring that these differences did not lead to any substantial disparity in results obtained or to friction between our two governments.

His chief contact in the State Department was Mr. Dean Acheson, who had recently succeeded Mr. Grady. Although things had seemed to be moving rather slowly in April and May there was, as Mr. Noel Hall had noted from the start of his mission, 'an almost embarrassing desire to help', and a continued improvement of administrative co-ordination in economic-warfare matters even before the taking of the high-level political decisions which made possible the full participation of the United States in the economic war. Relations with the press were generally excellent, and owed much to Lord Lothian's appointment of Miss Craig McGeachy to his staff to look after press relations in relief, blockade, and other economic-warfare matters.¹

The most important example of this tendency for administrative

¹ Unlike many other public-relations officers, she was an experienced press woman, so that the public relations of the War Trade Department were professionally handled. See E.B., i, 499, 501, 574-5.

cooperation to anticipate political advance was, perhaps, the effective correlation of United States export licensing with United Kingdom navicerts. Export licences were now required for nearly every commodity leaving the United States, and officials in a number of United States departments recognized the advantage of limiting export licences for American exports to navicert destinations to those for which navicerts were available. The State Department, which officially issued the export licenses, was not prepared, during the period of American neutrality, to agree to any formal and public linking of the two documents: but it was forced by sheer administrative necessity to go further than it had perhaps wished in this direction, for by April 1941 something like a black market in export licences had grown up. The licences were allotted to different countries on what might be described broadly as a quarterly basis; the quota was closed for the quarter as soon as the appropriate licences had been issued, and many exporters were securing, early in each quarter, and to the detriment of other shippers, licences in excess of the quantities that they expected to ship, or for which they could obtain navicerts. Moreover, a neutral government might play off London's navicerts against Washington's export licences and vice versa. The Portuguese at this time had export licences outstanding for tinplate far in excess of their probable requirements, while the Swiss had asked most urgently for export licences for a long list of commodities in respect of only some of which had navicerts been issued. As there was no apparent disagreement on policy with regard to goods to be imported into Spain, Portugal, and Switzerland, the State Department was willing to keep the issue of export licences within the framework of the British rations for the countries concerned, whether these rations were agreed or imposed. It did not wish, and was not indeed in a position to investigate consignee or consignor in each case: the implication was that it would accept the British decision in these matters. The Ministry at once sent copies of the quarterly ration lists for Spain, Portugal, Switzerland, Sweden, and Finland; at the beginning of June the State Department agreed, by an official arrangement, to receive copies of all navicert decisions. While, however, Mr. Acheson 'saw no great objection' to making possession of a valid navicert a condition of the grant of an export licence, he did not like having to operate more or less blindly, and accordingly at the beginning of July asked for fuller information, including if possible some indication of the quantity under each heading which would probably be drawn from the United States. On the last point the Permits Committee in London had to explain that each rationed country was deliberately left free to draw from whatever source it chose. It was able to give all the other particulars asked for, and from this point until Pearl Harbour the close but 'unofficial' liaison between

navicerts and export licences continued, although it was not, of course, complete.¹

There were other cases in which United States administrative devices during the early summer helped the British blockade, particularly in relation to Latin American exports. One was the extension of the United States export-licence system as from 5th May to cover 'in transit' shipments (i.e. goods which entered the United States on their way to a third country).² Another was the beginning of preclusive purchases in Brazil, following the United States-Brazilian agreement of 14th May.³ A third was the institution of a system of shipping control similar to the British ship-warrant scheme. The last of these developments is as good an example as any of the achievement of common objectives by parallel but independent means. For some time before March 1941 it had been hoped that American control of oil and coal bunkering facilities in Central and South America, if administered jointly with those controlled by the British, would make it possible to extend the ship-warrant plan to all vessels touching at Central and South American ports. It might also enable the two countries to secure the use of all enemy and French refugee and other allied ships in Hemisphere ports. It was further hoped that United States control of aviation fuel would put an end to air communication between South America and Germany where this was not already under control. By this stage, however, the United States Administration was anxious to secure control of all possible tonnage to carry lease-lend supplies. Accordingly the emphasis in the British negotiations with the United States authorities on this point was changed from preventing ships from carrying cargoes helpful to the Axis to the bringing of all possible tonnage into Anglo-American service. On and after 30th March the United States authorities took possession of 39 Danish, 28 Italian, and two German ships in United States ports, on the ground that some of the Italian crews were damaging the machinery of their ships. On 15th May the Senate passed a bill, which had already been passed by the House,

¹ Thus the State Department explained early in October 1941 that owing to the big accumulation of applications, the necessity for early action to appease restive applicants, and the need to clear the files somewhat before the Board of Economic Defense took over, the navicert-export licence marriage could not be consummated in relation to Persia. It also found that although it had copies of all navicerts granted it could not always relate them exactly to export-licence applications owing to differences in terminology, etc. When the Export Licence Administration began to ask in writing for photostat copies of valid navicerts to be submitted with export-licence applications, it was compelled to withdraw this demand on the intervention of the legalists in the State Department, who argued that no American exporters should be required in writing to provide proof of the possession of a foreign document in order to have proper consideration of his application for a United States licence. In the course of the following weeks a face-saving device was worked out whereby applicants, while not required to produce navicert evidence, were advised that the consideration of their applications would be facilitated if navicert evidence were produced.

² E.B., 1, 507.

³ *Ibid.*; further developments in Latin America are discussed in chap. IV below.

authorizing the President to acquire all foreign-owned ships in United States harbours; whereupon the coastguards took into protective custody all French ships in United States ports, including the *Normandie* and 12 cargo ships. Under the President's instructions Mr. Sumner Welles developed a Hemisphere policy for bringing all idle ships in Hemisphere ports into service; the United States Maritime Commission was authorized to acquire 2,000,000 tons of United States shipping in the Western Hemisphere to be used 'in accomplishing our objective of all our aid to the democracies'. The success which attended these measures made the extension of bunker control along the line originally desired by the Ministry unnecessary, and by the early summer of 1941 practically every ship that might have been used as a blockade runner had been brought into the service of the democracies.¹

It was not always possible to achieve a working collaboration with so little friction. British blacklisting policy in Latin America was openly attacked in the United States' press in the summer of 1941 as an attempt to secure private British interests at the expense of American traders, and we must pause here for a moment to examine the complexities of this problem for the British Government.² They arose from the fact that the British War Trade Lists were trying to secure two partly incompatible ends. Great Britain had to maintain some export trade in order to secure the currency resources needed for purchases of food and raw materials abroad; this trade was under complete governmental control and was in no sense a mere matter of private profit. Otherwise export trade was ruthlessly abandoned.³ Moreover, persons of enemy birth or nationality in neutral countries might benefit the Allies by trading with British firms. While, therefore, the Ministry's natural inclination was to expand the lists, the Board of Trade, anxious to foster whatever export trade it was allowed to foster, tended to give suspects the benefit of the doubt, to leave them off the lists until there was strong evidence against them, and to encourage them after listing to retrieve themselves by giving undertakings and guarantees.⁴ The Trading with the Enemy Act gave the British authorities licensing powers enabling them to authorize

¹ Mr. Hall had been instructed to press for a United States shipping-control system on the lines of the British ship-warrant scheme. The change in emphasis in the American plans led to the transfer of the negotiations on the British side from the War Trade Department to the British Shipping Mission under Sir Arthur Salter.

² For an examination of the basic principles of blacklisting see E.B., i, 124-8.

³ Lord Keynes said of the abandonment of export business, 'We threw good house-keeping to the winds. But we saved ourselves and helped to save the world.' Quoted by H. Duncan Hall, *North American Supply* (H.M.S.O., 1955), p. 445.

⁴ The effect of placing a person on the Statutory List was to make it illegal for anyone in the British Commonwealth of Nations to have dealings with that person without special licence. In addition to depriving the listed person of contacts with British subjects the Ministry's aim, according to its pre-war programme, was to discourage him further:

(a) by denying all facilities under British control to Statutory Listed firms and by

dealings with the enemy where those dealings would clearly help towards winning the war notwithstanding any benefit which the enemy might derive from them.¹ This power was always exercised with this end in view, whether the contemplated dealing was with persons in enemy territory or with enemies (whether on the War Trade Lists or not) in neutral territory; the licences were granted only in exceptional cases and normally only for particular transactions. As both departments were agreed as to the wisdom of these general lines of procedure the differences between them must not be exaggerated. The Board was making every effort in the winter of 1940-41 to make a success of the export drive, and it had sent the Willingdon Mission to South America for this purpose. Nevertheless, the situation easily gave strength to the accusation that the British were insincere and were prepared to relax their own war effort in order to favour private British commercial interests.

Reports on the working of the War Trade Lists in Latin America came before the Black List Committee during the last months of 1940 and made rather depressing reading. Listing had had some adverse effect on the firms concerned, but in most cases this had not been considerable; the political reactions of all the states (with the exception of the Dominican Republic) had been somewhat unfavourable, and in no case had British trade benefited. In Argentina, Brazil, and Mexico there was clear evidence that United States suppliers were replacing British firms, although in other cases, such as Peru, it was known that United States firms had refused to do business with listed firms. The reports from Argentina and Brazil pointed to the conclusion that only the entry of the United States into the war would make the policy really effective. In Brazil the mission was forced to report that statutory listing 'does not injure the enemy and . . . far from benefiting United Kingdom trade, tends to drive many listed firms to find other suppliers, for example in the United States, to the detriment of United Kingdom efforts to increase exports'. Accordingly from mid-December the Ministry, basing its arguments on these reports, was pressing the Board of Trade to agree to the revision of the whole Statutory List policy, and to the inclusion of many more firms of enemy character and connexions.

What emerged clearly from the reports was that active American support of listing policy in Latin America would transform the situation. As long as Great Britain was fighting the economic war alone it was for the British Government to decide how far blockade considera-

interfering, through contraband and export controls, etc., with trade between the persons named in either Statutory or Black List and the enemy;

(b) by impeding any financial, commercial, or political activities of listed persons which could assist the enemy;

(c) by discouraging dealings between neutrals and listed persons.

¹ Cf. C. J. Colombos, *A Treatise on the Law of Prize* (London, 1940), pp. 224-6; Martin Domke, *Trading with the Enemy in World War II* (New York, 1943), p. 470.

tions should be sacrificed in the interests of the export drive, but the point of view, reasonable or otherwise, of the American Government, business world, and press would have to be taken into account if America came in, or showed a real intention to do so. The problem was therefore to decide when the American interest had become sufficiently clearly established to justify a substantial change of British policy. During the first five months of 1941 the Board of Trade was unwilling, in the absence of much stronger evidence than the Ministry could show, to assume that the United States Government would cooperate effectively at an early date.¹ In Washington on the other hand the British embassy was satisfied that the initiative would have to come from the British side, and that it would be necessary to make temporary sacrifices. Its more optimistic view of the situation was based on many indications of changing United States opinion. Soon after the fall of France the problem of Nazi influence in Latin America was vigorously presented in the American press; the alarm was sounded in the *New York Times* on 15th September 1940, and favourable references began to be made to the British 'blacklist' and the growing respect now being given it by United States traders. Further articles on the same lines² were followed by an important press statement by Mr. Nelson Rockefeller on 8th January 1941 as to the machinations of non-American (i.e. German) agents of American firms. But in view of the Board of Trade's attitude the Ministry could not go further than to instruct the British embassy on 11th February 1941 to explain the British position frankly to the United States authorities, and to sound them as to the possibility of establishing the Statutory and Black Lists for firms in the United States, the United States Possessions, and the Philippines; the existing practice was defended,³ and reports that important British firms were represented by notorious Nazis rejected as being without foundation 'in the majority of cases'.

While these instructions were welcomed by the embassy as a belated attempt to ensure 'clean hands' they did not remove all grounds for uneasiness. The news that Sperling, the local agents of Dunlops in Colombia, had been placed on the Statutory List, was balanced by the removal from the List in January 1941 of the Argentine firm

¹ The Board's representatives rightly pointed out there was a good deal of confusion in the criticisms that were being made against British practices; a man in a neutral country was not an enemy solely by reason of enemy nationality. British trade was, they said, having a hard enough time in South America anyway, and the obstacles to it should not be unnecessarily increased.

² E.g., *New York Times*, by C. H. Calhoun, 20th Oct. 1940; *Chicago Daily Tribune*, 2nd Nov.

³ 'If the listing does not seriously impair the position of the person listed nor diminish his local influence and does damage to our own trade . . . then the listing will defeat its own object and we are not open to any American national criticism on this score.'

of Curt Berger y Cia,¹ and by other deletions which were soon to cause trouble. That the tactical disadvantages of the Board's policy were not fully understood in Millbank seemed evident to the embassy from a circular telegram of 14th April 1941 (sent out by M.E.W. on behalf of the Black List Committee) which again argued the case for expedient de-listing. These steps, however sensible from the Board's point of view, were ill-timed. It was known that the United States missions in Latin America had been preparing consignee lists since December 1940, and in many cases they were working in close association with the British missions for this purpose. At the end of March 1941 the State Department told the embassy 'unofficially' that it was seeking the cooperation of U.S. business in freeing itself from anti-American attachments in other American countries; it would be pleased to receive informally useful data and current information. At the end of April the embassy was promised 'early consideration' of the Ministry's desire to include about 60 United States and 10 Philippine firms in the Statutory List. Unfortunately these promising but informal discussions suffered a temporary setback² owing to an injudicious press statement by the Minister of Economic Warfare, who told American correspondents on 1st May that America could best help Great Britain by the freezing of enemy assets, cooperation in blacklisting and cooperation in bunker control, and that certain American firms which he named had 'traded with the enemy'. Mr. Hull was stated to have been 'made very angry' by the charges, which in one case at least he believed to

¹ The firm was placed on the initial Statutory List published on 13th September 1939. The name had been included in a list of firms 'undoubtedly under German control' furnished by the British embassy in Buenos Aires. In December 1939 the Argentine ambassador objected that the firm was an old-established Argentine concern, and that the active partners, though of German origin, were born and had lived all their lives in Argentina. The Board of Trade believed that British trade would be likely to benefit if the name were removed. The senior partner, Curt Alfredo Berger, was a German national resident in Germany, but there was no evidence that he exercised any control over the concern in South America. It did not seem that the firm could be described as 'enemy' within the meaning of Section 2(1) (c) of the T.W.E. Act. The matter was under discussion throughout 1940, and it was agreed that the name should be deleted in return for an undertaking, to which, however, the Board thought it necessary to add additional clauses to ensure that the senior partner did not subsequently assume control. The partners of the firm were not willing to give the undertaking in writing in case the senior partner in Germany suffered, but they undertook to give a voluntary and oral undertaking to make no remittances to Germany during the war and to submit their books to inspection by a chartered accountant appointed by the British embassy. There was no disagreement between the Ministry and the Board of Trade as to the need to de-list the firm. The name was deleted in January 1941. Shortly after this, statements were made to the embassy, and in the United States press, that the firm or some of its partners contributed regularly to certain propaganda expenses of the Germans in Argentina. The firm dealt in paper, machinery, and materials for the printing trade, and was one of the largest of its kind in South America; there was no doubt that its inclusion in the Statutory List during 1940 had resulted in the diversion of trade from British companies to others in the United States and elsewhere. The name was again included in the Statutory List on 5th August 1941.

² The embassy was told on 2nd May that if it should ever wish to reopen the matter it should in the first instance approach Mr. Hull himself, or Mr. Welles.

be unfounded.¹ The incident was viewed very differently by the United States Treasury; a few days later Mr. Morgenthau asked the embassy to send a message to Mr. Dalton expressing warm approval of his action, which Mr. Morgenthau described as very friendly to the United States.

Although the partial inaccuracy of the Minister's statement was regrettable the real cause of trouble was the public attack on American firms at a time when the State Department was on the verge of big changes in policy, and was showing signs of considerable nervous strain in the process. The incident did not stand alone; later in the month there were explosions over the *Sheherazade* incident, and over a well-meant attempt by Mr. Eden to give Mr. Hull advice about Japan.² In the meantime warnings poured in to the Ministry from posts in Latin America as to the inexpediency of the Board of Trade's 'new policy' of encouraging deletions and undertakings. Events were moving fast, and the Ministry only just managed to keep abreast of them. On 11th June it told Lord Halifax that the War Trade List policy was being reconsidered. A week later Mr. Acheson told Mr. Noel Hall at 'a very secret meeting' that a United States blacklist of South American firms was to be issued, and Hall was able to say, on the strength of the Ministry's telegram of the 11th, that this action would enable the Ministry to have a more vigorous blacklist policy in that area, since the commercial argument that the British hit themselves and did not hit the enemy would disappear as soon as British and American competitors had common treatment.³

The United States Government had in fact already embarked on a new series of measures which were to bring its really important economic weapons into action.⁴ These were the extension of the Freezing Order on 14th June to cover Germany and Italy and the rest of continental Europe, the issue of a 'Proclaimed List of Certain Blocked Nationals' on 17th July, the freezing of Japanese and Chinese assets on 26th July, and the announcement on 31st July of the establishment of an Economic Defense Board under the Vice-President, Mr. Henry Wallace. Foreign Funds Control (supported by listing) was thereby firmly established as the principal economic-warfare weapon of the United States, although domestic export control and, in due course, control over the allocation of materials in short supply

¹ This was the Chase National Bank. The other firms named by Mr. Dalton included the General Aniline and Film Corporation, the Schering Corporation of Bloomfield, N.J., the Hugo Stinnes Corporation, the Transocean Coal and Transport Company, the Pioneer Import Corporation, and the Steel Union-Sheet Piling, Inc. The original statement, and denials by the firms, were featured prominently in the United States' press on 2nd, 3rd, and 4th May.

² E.B., I, 504-5; p. 100 below.

³ The resulting adjustments in British listing policy are described below, pp. 134-9.

⁴ Technical aspects are examined in Domke, *op. cit.*, pp. 38-50.

throughout the non-Axis world, were important ancillary weapons. The British Government's satisfaction at these developments was somewhat clouded by the considerable press campaign against British trade practices which ran its course during July and August. It produced allegations as to the misuse of blacklisting, censorship, and lease-lend materials, but seems to have been mainly a development of the campaign against lease-lend.¹

The British Government had long been disturbed by the continuance of Axis financial activities in the Americas, but it had proved difficult to secure United States' action against enemy assets in the States themselves, in spite of evidence of considerable support for such action in public opinion. During the spring and early summer of 1941 the War Trade Department had continued to press all American officials with whom it was in contact for a proper freezing of funds, and care was taken to ensure that American counter-espionage and counter-sabotage agencies were kept informed of the dangers of the existing situation. When the President finally used his Emergency Powers to order, on 14th June, the complete freezing of assets in the States of all European countries he acted largely as a result of the efforts of Mr. Morgenthau and others, without prior consultation with the British Government. The document took the form of an amendment to the Freezing Order of 10th April 1940, but the preamble contained the additional phrase, not used in the previous orders, 'necessary in the interest of national defense and security'.² A few days earlier, Mr. Morgenthau had said that there was little purpose in the extension of the order since enemy funds had

¹ Thus Roland Kemper in the *New York Sun* (2nd July) said that while waging war against Hitler Great Britain was not overlooking the fact that after the war some means must be found of footing the bills which the war involved. The United States should be equally realistic and see that both its foreign trade and domestic economy were disturbed as little as possible. He accused the British of making use of business secrets obtained through the censorship in Trinidad and said that the British were managing to get raw materials from the South American market which American exporters were told that they could not have because of the prior needs of the lease-lend programme. Charles E. Egan in the *New York Times* on 6th July repeated and amplified the stories about misuse of lease-lend materials, and brought in the black list with the story of a Buenos Aires buyer who had been removed from the list long enough to enable a British company to bid for business and get its money, whereupon the company was put back on the list. This burst of criticism of British economic-warfare practices (4th July, it may be recalled, was traditionally anti-British day), was practically the only serious press attack that the War Trade Department had to deal with during the period of neutrality. The lease-lend agitation, which lies outside the scope of this story, ran on for some weeks, with repercussions in Congress, and was finally cleared up by Mr. Eden's White Paper on the subject in August. (R. S. Sayers, *Financial Policy, 1939-1945* (H.M.S.O., 1956), pp. 398-405.) As far as blacklisting and censorship were concerned the embassy was able to deny categorically any misuse of censorship for private business ends, and was able to say that it could not identify the Buenos Aires story. In Buenos Aires the British chargé read the extract to the local correspondent of the *New York Times*, who denied knowledge of the story; there seemed no doubt, however, that it was a distortion of the Curt Berger case. W. K. Hancock and M. M. Gowing, *British War Economy* (H.M.S.O., 1949), pp. 243-6, 526-7.

² Cf. Barnett Hollander, *Confiscation, Aggression, and Foreign Funds Control in American Law* (New York, 1942), p. 143.

now left the country. It soon became clear, however, that the new step had a wider purpose. The funds of European countries other than belligerents had been frozen in order to prevent adjacent European neutrals from providing cloaks for enemy financial transactions, and the definition of a 'national' of the countries whose transactions were brought under the Order was so wide that, as a British official remarked on 29th June, very few people in the world were not covered by it. A 'national' of a foreign country was defined under the following categories as:

- (i) Any person who has been domiciled in, or a subject, citizen, or resident of a foreign country at any time on or since the effective date of this Order.
- (ii) Any partnership, association, corporation or other organization, organized under the laws of, or which on or since the effective date of this Order had or has had its principal place of business in such foreign country, or which on or since such effective date was or has been controlled by, or a substantial part of the stocks, shares, bonds, debentures, notes, drafts, or other securities or obligations of which, was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined.
- (iii) Any person to the extent that such person is, or has been, since such effective date, acting or purporting to act directly or indirectly for the benefit or on behalf of any national of such foreign country, and
- (iv) Any other person who there is reasonable cause to believe is a 'national' as herein defined.¹

At the same time the United States Treasury called for a return, as on 1st July, of all foreign assets in the United States, and it may be that it was because the Foreign Funds Control started when the United States was still neutral that an Alien Property (instead of an Enemy Property) Custodian was set up after she entered the war. Before the end of June Russia, apart from the Baltic States, was excluded from the order, and general licences were granted to Switzerland and Sweden on the basis that transactions by 'nationals' of those countries on accounts in the United States of America were permitted on a specific guarantee being given in each case by the Swedish or Swiss authorities that no benefit or interest of a 'blocked' country or its nationals was involved. In July the United States Treasury issued a general licence to Spain similar to those granted to Switzerland and Sweden, each transaction being guaranteed by the Spanish Foreign Exchange Institute. After lengthy negotiations a similar general licence was issued to Portugal on 11th August.

¹ Domke, *op. cit.*, pp. 436-7; for later developments see the same author's *The Control of Alien Property (Supplement to Trading With the Enemy in World War II: New York, 1947)*.

The extension of the Freezing Order, although it came too late to catch the bulk of the enemy assets in the United States, was very welcome to the British authorities; in order to cooperate to the full the Bank of England, on the request of M.E.W. 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 prior permission of the Bank of England. The market were also informed that they should refer to the Bank before carrying out any instructions from persons not resident in the sterling area regarding securities held in the United States. The United States Treasury told the British embassy that it depended largely on the Ministry of Economic Warfare to detect evasions of the Order, and the Ministry was asked to increase as much as possible the information sent to the United States Treasury. The latter suggested to American banks the use of the British Statutory List as a guide in deciding whether firms were enemy-controlled, and the Ministry telegraphed lists of banking and commercial cloaks, of firms engaged in the export of securities, currency notes, and the like on enemy account, and of enemy-controlled concerns recommended for the Statutory Lists but not yet published.

The British authorities regarded the omission of Latin America and Japan from the scope of the freezing order as a serious gap in the arrangements; Japan, however, was dealt with by the British and United States freezing orders of 26th July, and the Latin American states by the issue of a general licence and the Proclaimed List on 17th July. It was obvious that Latin American countries were providing cloaks for Axis financial activities; the United States Government could not, however, in view of its cautious political policy in the Hemisphere, freeze all Central and South American assets, and it was not prepared at this time to attempt to secure the introduction of freezing agreements in each Hemisphere country. The device, therefore, of a 'blacklist' of firms which had evaded the freezing order and were known to be helping Axis business was adopted. The terms of the President's proclamation on 17th July were extremely comprehensive, and a press release at the same time explained that exporters and importers might from time to time be advised by their banks or otherwise that specific licence applications were necessary for trade with certain persons not named in the Proclaimed List. This indicated the existence of a second, or confidential, list. The British authorities were somewhat taken aback to discover wide discrepancies between the United States Proclaimed List and the British Statutory List. Although there had been much informal discussion between the embassy and State Department about listing questions, and although the British Statutory Lists had been taken as a basis for the preparation of the Proclaimed List, there had been no oppor-

tunity for an examination of the American list by the British before 17th July. Closer examination showed that the differences were not so great as they at first appeared; they were due mainly to the inclusion in the Proclaimed List of individuals suspected of pro-Fascist or pro-Nazi activities. During the next few months, therefore, the Ministry proceeded to examine the differences between the two lists, and subsequent amendments to both lists brought them into closer harmony. Yet the State Department seemed unable or unwilling to give the Ministry adequate advance information of changes in its lists, and up to the end of September 1941 discrepancies were considerable. Then on 2nd October the Black List Committee in London decided to include forthwith in the Statutory List all Proclaimed List names not already there, unless they were of firms which had given, or promised, undertakings. This was followed during October and November by the working out of plans in Washington to enable the two governments to exchange information in good time.

It was, however, in its application against Japan that Foreign Funds Control came decisively to the assistance of British economic-warfare policies. The Russo-German conflict and the consequent closing of the Trans-Siberian route had not at first led to any modification in British economic-warfare activities in this area. Germany was no longer able to draw supplies from the Americas via the Far East; but the Ministry's object was still to restrict as far as possible the supplies of all important commodities to Japan and Japanese-occupied China, including Shanghai, since they might either be used against the Allies by the Japanese or subsequently forwarded to the enemy should the Trans-Siberian route be re-opened. All measure of control at sources in the Americas were therefore retained; indeed, the Ministry anticipated an intensification of enemy blockade running in the Atlantic which would make these measures, and in particular steps to deny facilities to enemy ships, of even greater importance. On the other hand the case for pressing the United States Government to agree to interception of Japanese and other selected ships in the Caribbean area, and to the establishment of a navicert system in the Far East, was definitely weakened, and it was agreed at the end of June to leave these two proposals in abeyance for the time being. The closing of the Panama Canal to Japanese ships at the end of July, and the establishment of an almost complete embargo on trade with Japan, made it unnecessary for the Ministry to revive these two projects.

The freezing of Japanese assets on 26th July 1941 was by far the most important single step that the United States Government had so far taken in support of the economic-warfare operations of the democracies; it turned Foreign Funds Control into a major weapon of international diplomacy, without any formal departure from the

main lines of development of United States policy in this field. Its practical consequences when fully applied were, however, enormous. Hitherto restrictions on United States exports had been based, more or less plausibly, on the principle of 'scarcity', which had been the official justification for the export-licensing system. But the crucial commodities in Japan's case were iron ore, cotton, and the lower grades of petroleum products, which were in plentiful supply in the States; to deny them to the Japanese, and for that matter to freeze Japanese assets, would be positive, and not merely defensive, action, against the Axis, plainly involving the risk of war. The risk was taken, although as the account below will show (Chapter III) there was much hesitation in Washington during August as to how severely pressure should be applied. The decision of President Roosevelt in September that the freezing order should be enforced with the maximum degree of severity was the final identification of the United States with the Allied cause.¹

With the United States Government facing the possibility of war during the last months of 1941 it was the task of the British embassy, and particularly of the War Trade Department, to encourage and assist the final shaping of the American plans, and to ensure the maximum degree of collaboration with the appropriate British organizations. This task was not without its delicate features. The Americans were thinking of economic warfare on different, and in some ways broader, lines, from those of the British; and the rivalries between those officials and organizations in Washington who wished to direct the operations were at times intense. Some reference has already been made to the discussions which preceded the setting up of the Board of Economic Warfare.² The variety of persons who desired to collaborate, and who expected to head the United States economic organization when it was formed, was at first a little embarrassing; but Mr. Acheson soon made it clear to Mr. Noel Hall that it was intended that the State Department should retain control. The two had a series of talks upon the aims and methods of the Ministry of Economic Warfare in April and May 1941. It became clear during these talks that Mr. Acheson had not seen the material which had been supplied to the Ghormley Mission, to the American military attaché in London, or to Colonel Donovan, and that he was not receiving copies of the material which was being sent to General Maxwell by Major Clabaugh, who was at that time in liaison with the Ministry in London. Although the latter had been accepted in the Ministry as the responsible representative of the

¹ Barnett Hollander, *Confiscation, Aggression, and Foreign Funds Control in American Law*, chap. 7, pp. 137-70, gives a good near-contemporary summary of the technical aspects of the freezing orders in 1940-41; it also reflects the limitations of contemporary knowledge in its failure to attach particular significance to the Japanese freezing orders.

² E.B., i, 499-503.

United States Government he appears to have been no more than the personal representative of General Maxwell, the Export Licences Administrator, although during his stay in London he was taken fully into the confidence of M.E.W. and wrote an excellent report about it. The United States Treasury was also a competitor for the control of economic warfare.

The British officials in Washington were doing their best to encourage the formation of an American governmental agency strong enough and sufficiently well-organized to carry out economic-warfare tasks effectively. At the same time they had to avoid any action which would suggest that they were taking sides in the struggle for control. Early in June the embassy was told that the executive order for the setting up of an economic-defence commission was 'on the President's desk'; but the final decision continued to be delayed. On 20th June the embassy heard that the Vice-President, Mr. Wallace, would probably be given charge of this body, owing to the reluctance of any Cabinet member to allow any part of the work of his department, save under statute order, to be carried on under the direction of another cabinet member. The Ministry welcomed this prospect of an early decision; and while Mr. Wallace was not regarded as the ideal man for the work, it seemed a great advantage to have someone of his standing in charge. Mr. Harry Hopkins was taking a leading part in the discussions, and the need for a single administrative body in the United States responsible for economic-warfare questions was pressed on him during a visit to London late in July. The Ministry also warmly recommended the appointment of United States observers to the Permits and Black List Committees in London, and cooperation with regard to Latin American countries when questions of additions to and deletions from the United States Proclaimed List and the British Statutory List were under discussion.

In Washington the War Trade Department tried to make clear the distinction between the 'economics of war' and 'economic warfare' as these terms were understood in London, and to persuade the United States Government to restrict the new agency to the latter. But the American tendency was to make the two terms identical and to set up one all-embracing organization with terms of reference wide enough to cover all extraordinary war-time economic activities. This was in fact what emerged in the Presidential Order, dated 30th July 1941, setting up the 'Economic Defense Board'.¹

The Board was intended originally as a purely policy committee without executive functions; under the chairmanship of Mr. Wallace it included the Secretary of State, the Secretaries of the Treasury, of War, of the Navy, of Agriculture, and of Commerce, and the Attorney General, together with any additional members that the

¹ *The United States at War, op. cit.*, pp. 65-8.

Chairman, with the approval of the President, might decide to appoint. The term 'economic defense' was defined in Article 1 of the order: it meant

the conduct, in the interest of national defense, of international economic activities including those relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries including preclusive buying, transactions in foreign exchange and foreign-owned or foreign-controlled property, international investments and extensions of credit, shipping and transportation of goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters.

Article 4 explicitly stated that the administration of the various activities relating to economic defence should remain with the several departments and agencies now charged with such duties, although their action should conform to the policies 'formulated or approved by the Board'. On the other hand Article 7 authorized the Chairman to 'employ necessary personnel' and to make final decisions. It was clear that the Board would not fulfil the functions of a ministry of economic warfare unless it were able to build up a considerable staff, and that its immediate purpose was to avoid the placing of control in the hands of any one department. The Board also had a not-well-defined purview over economic reconstruction.

The Vice-President appointed Mr. Milo Perkins to be his principal officer, but he fell ill immediately upon appointment, and was not able even to see visitors in his bedroom for some weeks. During his illness, virtually nothing was done to build up the staff of the new agency. But in the second half of September things began to move. British observers attributed this in part to the President's broadcast on 11th September, in which, after reference to the *Greer* case, he had said that when you see a rattlesnake poised to strike you do not wait until he has struck before you crush him; partly to Mr. Stacy May's report¹ on his recent visit to England, which was believed to have shocked the Administration by showing how much more the British were doing than themselves; partly to a considerable reshuffle of responsibilities inside various government departments which had brought some vigorous and efficient people forward. General Maxwell was returned to his military duties, and his office abolished; about half his staff was dismissed, and a new export-control unit was set up under the Vice-President's direction. The Department of Export Controls in the State Department was also liquidated for all practical purposes. Relations between the Board and the War Trade Department were very close; the Department was consulted about the personnel which the Board proposed to retain from the liquidated

¹ Cf. H. Duncan Hall, *North American Supply*, pp. 327, 330.

export-licence administration. At the same time it set up the beginning of an intelligence section. It seemed therefore at the end of September 1941 that the Board would become a reality, and might take over the effective control of economic-warfare work, thus saving the British officials the time and energy which had been spent hitherto in moving from one overlapping section of the Administration to another.

But the Board's development of executive functions was countered by the State Department, which set up on 8th October a Board of Economic Operations, under the chairmanship of Mr. Dean Acheson, with another Assistant Secretary of State, Mr. Berle, and the Adviser on International Economic Affairs, Dr. Herbert Feis, as vice-chairmen. This meant that the several scattered units in the State Department which had handled economic questions in the past were now concentrated under one head. Two new Divisions, a Division of Exports and Defense Aid with Mr. Charles Bunn as its acting head, and a Division of Defense Materials, under Mr. Thomas K. Finletter, were set up as component parts of the Board. The organization in general was policy-making as well as executive, and reported to the Secretary of State.¹ This arrangement also was welcomed by the British embassy; the individuals who had been promoted were known to be men of exceptional ability who had been working on terms of closest confidence with the War Trade Department for three or four months, and it was felt that although they were 'America First' in the best sense of the term, they had all taken the trouble to study the problems of the United Kingdom, and were able to work with the British officials on a basis of practical collaboration and equality.

Nevertheless the unsolved problem of competing jurisdictions remained, and to these two organizations must be added the U.S. Treasury, which operated the President's Executive Orders on freezing, and through its control of all payments to and from blocked countries was able to control trade with those countries. A fourth distinctive U.S. organization was the interdepartmental Proclaimed List Committee presided over by Mr. Dickey of the State Department.

It was with these four main organizations for economic warfare that the United States entered the war in December. As they formed the starting point of the U.S. administrative arrangements in this sphere for the next four years it will be convenient at this stage to note briefly their inter-relation, and their position *vis-à-vis* the British embassy.² The Treasury had originally had almost the sole control

¹ The Board of Economic Operations continued under its first title until 7th June 1943, when its functions were transferred to the Office of Foreign Economic Coordination within the State Department. This was abolished on 6th December 1943, following the establishment of the Foreign Economic Administration in the Office of Emergency Management on 28th September 1943.

² Cf. Duncan Hall's comments on the general character of Anglo-American administrative cooperation in the closely-related field of supply: *op. cit.*, p. 304.

of economic-warfare questions (in the British sense of the term), but after October 1941 the influence of the State Department on the political aspect of the questions involved had greatly increased; through its Board of Economic Operations it seemed to be having the better of the main struggle for control which it was waging with the Board of Economic Defense, but the latter had to be reckoned with in many fields and the issue continued to be a live one throughout 1942. One factor in the situation was the right of the State Department to claim that in the last resort it was the only channel of communication between the embassy (including the War Trade Department) and the United States Government. It was clear that all main questions of policy were settled sooner or later by the State Department, but inside the Department there were also differences of opinion, and the political Divisions and the various Advisers played a large part in decisions, and did not always see eye to eye with the economic side, under Acheson. It was, in fact, often a matter of some delicacy for the British to know whether a particular question should be taken up in the first instance with the political or economic side. The influence of the political side was naturally very strong in all Latin American questions, but was also to be reckoned with in many European questions, particularly those relating to the Vichy Government.

Among the more detailed arrangements may be noted the direct contact between the Financial Section of W.T.D. and the Treasury on all freezing matters, although where questions of policy towards other countries were involved contact was also maintained with Acheson and the Foreign Funds Control Division operating under him. This Division had responsibility for all matters of foreign policy in Foreign Funds Control matters (i.e. freezing) including the application of the Proclaimed List, and it maintained liaison with other interested departments. Then there was a Financial Division of the State Department reporting to Mr. Berle, which had responsibility for all matters of foreign policy in financial matters other than Foreign Funds Control. The Financial Section of W.T.D. also had direct contact with the Financial Division, though it was often a matter of some difficulty to know which question should go to which of these two Divisions.

(ii)

‘A real Klondike in Economic Warfare’

When the United States Government at last found itself at war with Germany, Italy, and Japan it was able to develop economic defence into economic warfare, but the essential features of its policy

had already been defined before December 1941. The freezing of Japanese as well as German and Italian assets and the issue of the Proclaimed List, together with the preclusive purchasing programme in South America, had dealt a powerful blow at Axis trade and interests in the Americas. All trade between the United States of America and Japan had been broken off and, as far as circumstances permitted, the economic policies of the British Empire and Netherlands East Indies had been brought into line with the policy of the United States. The possession of a valid navicert in all cases where British regulations required one had come to be recognized as necessary for a successful application for a United States export licence. A beginning had been made with plans for Anglo-American cooperation in the denial of the comfort of insurance to the King's enemies. Support was being given to the British pre-emptive programmes in South America, where some countries were about to develop systems of export licensing that would assist the British controls. Observers had been placed in French North Africa to check the export of goods to Axis territories. The delicate issue of relief had been eased when Mr. Hull had permitted the publication of a letter addressed to the Chairman of the Senate Foreign Relations Committee, in which he had placed the responsibility for feeding the peoples in occupied territories squarely upon the enemy.

The United States Government had at times seemed slow to move, but the sum total of its activities was already impressive. It had been faced, during the period of neutrality, with many difficulties: administrative confusion, the brake imposed by the 'good neighbour' policy, the still uncertain state of public opinion, and the fact that in nearly every case important American financial and commercial interests were prejudiced by the measures of the State Department and Treasury. It is a testimony to the success of the United States Government in gauging the movement of opinion that there seem to have been few if any serious protests by these interests against measures which called on them for heavy sacrifices. Much of the credit for the very real progress and for the absence of any substantial public protest must go to the War Trade Department of the British embassy; particularly important work was done in this connexion by Mr. Stopford's section, by the British censorship authorities, and by some of the British Security officers. These had all worked for nearly a year in close but discreet harmony with the United States Treasury, the Department of Justice, the F.B.I., and other authorities, and had given much needed information about Axis financial interests and activities in the United States and Latin America. As a result the United States Government was ready when the time came to expose any protest against active measures of economic warfare that might be made by Americans acting in the Axis interest.

The task of the immediate future was to develop this cooperation to the full, and to secure the greatest possible integration of the Anglo-American effort. But it soon became evident that the differences of approach, which had been accepted on the British side as a temporary product of brilliant American improvisation during the period of neutrality in 1941, had not disappeared with American belligerency; they proved to be manifestations of a genuine duality of outlook and of tempo which was never completely reconciled.¹ The complexity and competitiveness of governmental agencies in Washington, which produced some abrupt and contradictory twists in United States policy, also made cooperation more difficult; these fluctuations were embarrassing to the British mainly because they were anxious not to be drawn into domestic brawls, but they knew that at times their own programmes were being directly challenged. The process of adjustment was carried out with goodwill on both sides; no one lost sight of the common goal. It nevertheless complicated the course of Anglo-American policy in almost every field of economic warfare during 1942.

The steps to be taken were clear enough in certain directions. The informal coordination of British and United States activities must be completed, and the broader spheres of administrative action defined. In a telegram of 9th January 1942 to the United States embassy in London the State Department remarked that in economic-warfare questions,

as regards matters concerned primarily with the American Republics it is in the interests of efficiency if Anglo-American coordination should take place mainly in Washington as was the case during the last world war. For like reasons, London must be the principal co-ordination centre for matters relating to European countries.

This and accompanying telegrams referred more particularly to listing policy, but when copies were sent to the Ministry Sir Frederick

¹ Economic warfare had a fair measure of publicity in the States in the first weeks of the war. The tone of articles and of newspaper comment was usually one of enthusiastic praise of the potency in attack of the characteristic weapons of Hemisphere defence, particularly foreign-funds control, export licensing, and listing, with little if any reference to the British contribution. Thus E. H. Foley, General Counsel of the Treasury Department, in an article on 'Freezing Control as a Weapon of Economic Defense' (*New York Law Journal*, 2 Jan. 1942, p. 4) writes: 'We are equipped now with the most powerful economic weapons in the world. Foreign funds control, or freezing control, as it is more popularly called, is one of the most important instruments which this country can employ in its economic defense . . . The control also has those elements of speed and flexibility that make possible the immediate execution of economic programs in the furtherance of this government's foreign policy.' Cf. Barnett Hollander, *op. cit.*, p. 140. The all-sufficiency of the United States procedures is assumed also in Judd Polk, 'Freezing Dollars against the Axis' (*Foreign Affairs*, October 1941) and Percy W. Bidwell, 'Our Economic Warfare' (*ibid.*, April 1942). A more balanced contemporary study is *The Economics of Total War* (New York, 1942), by H. W. Spiegel, particularly chaps. 8-10. A. T. Lauterbach, *Economics in Uniform: Military Economy and Social Structure* (Princeton University Press, 1943), also has a good chapter (VIII) evaluating both British and American economic-warfare policies.

Leith-Ross, the Director-General, replied welcoming this 'division of coordination' and saying that the Ministry would be glad if it could be applied 'to the whole field of blockade questions relating to European countries, and in particular, to rationing and the control of imports into these countries'. The existing working arrangements between the two governments were speedily developed on these lines. The United States authorities took the lead in the Western Hemisphere with proposals to the Latin American states for the severing of all economic relations with the Axis; in such questions as listing they were prepared to take charge, and even complete charge, of the negotiations.¹ They took over control of exports from the United States to the navicert area. But otherwise the existing blockade machinery, including enemy-export control, remained in British hands, and in listing matters also the Ministry took the lead in the European sphere. During January administrative expression was given in London to these arrangements by the uniting of three separate committees (the Permits, Contraband, and Enemy Exports committees) into the Blockade Committee, under the chairmanship of Lord Finlay. The first of these committees was purely a committee of the Ministry; the other two were inter-departmental. To each of the three, which continued to function as separate sections, an American representative was added shortly after the formation of the Blockade Committee. Thus the United States Government had full representation and an equal voice with the British. Belgian and Dutch representatives had the right to attend but seldom did so. The decisions of the committee were passed to both the Ministry of Economic Warfare in London and the Board of Economic Warfare in Washington. Whenever an American representative on any section of the Blockade Committee felt that he could not agree to a decision without reference to Washington he could say that he had no instructions, and the minutes would then show the decision as having been taken without the concurrence of the United States Government. However, this action would not delay the Committee's decision pending instructions from Washington; if he desired this course the American representative would have to ask for it. His attitude left no doubt that the initiative and responsibility lay with the British.

These developments were in line with the general attitude of the United States towards neutral rights. In the weeks following Pearl Harbour there had been no public assertion of United States' rights as a belligerent; no contraband list was published, no reprisals order or any statement of policy with regard to enemy exports was issued,²

¹ See chap. IV below.

² Since March 1941, M.E.W. had sent the British embassy in Washington detailed instructions about the economic-warfare measures to be taken in the event of British and possibly United States involvement in war with Japan. The embassy was constantly asked by the State Department not to institute formal discussions on the point. Finally, on the

and no machinery was devised to put seized goods into Prize, although any Federal Court could hear proceedings as a Prize Court. Although this action was in line with the administrative expedients of the United States before Pearl Harbour its deeper justification lay in the doctrine that the security of the United States both as a neutral and a belligerent justified a unilateral repudiation of the traditional rights of aliens to have access to the commercial and financial facilities of the United States.

In applying this doctrine the United States Government was prepared on occasion to go much further than the British Government in interfering with the economic life of neutral countries, so that it can hardly be assumed that its action was due to reluctance to incur the unpopularity abroad that was associated with traditional blockade practices. There seems no doubt, however, that it was extremely reluctant to incur domestic criticism—an attitude which led to these somewhat roundabout attempts to maintain a legalistic consistency with its policy in the earlier stages of World War I. It is also probable that American officials never fully understood how much the success of their own distinctive methods depended on the British blockade machinery. Ingenious though the devices used by the neutral United States Government had been, they were not a complete substitute for measures which could be taken under the belligerent rights to which it was unable to appeal before Pearl Harbour, and reluctant to appeal thereafter. After the extension of Foreign Funds Control to all European countries it had had to rely very largely on the British navicert control and censorship to police the undertakings given by these neutrals as a condition of their being given general licences. Thus it was ultimately the Ministry that had had to decide whether any transaction in commodities moving into the navicert area and financed in dollars, or requiring any expenditure of dollars, was beneficial to the Axis. Similarly the United States authorities relied heavily on information made available by the British, including material obtained from the Imperial Postal and Telegraphic Censorship, to police purely financial transactions conducted under licence. In both cases the successful administration of the controls upon which the United States Government relied depended in a marked degree upon machinery developed in accordance with Great Britain's rights as a belligerent. Where no such control could be exercised—as over ships' stores—American supervision seems correspondingly to have failed. The first Spanish ship leaving New York after Pearl Harbour to be subjected to rigorous coastguard inspection was found to be flagrantly abusing its right to carry ship stores and also to be abusing

evening of 7th December 1941, Mr. Noel Hall was told by Mr. Acheson that the United States Government would undoubtedly interfere with Japanese exports, and the British Government need have no scruples about extending the reprisals order to cover Japan.

United States export licensing and Foreign Funds Control regulations.

It was in some respect highly gratifying to the British that the United States Government, after its entry into the war, showed no desire to make more than the minimum of change in the administration of the blockade necessitated by the new circumstances. They were pleased to find that the navicert system, which had had somewhat controversial origins, was now working so smoothly, and the American attitude was no doubt due largely to recognition of the fact that the British thoroughly knew their job. Some six weeks passed after Pearl Harbour before the Americans made even tentative approaches about the modification or abolition of the navicert system in the United States. There was clearly no place there for both the navicert and the United States export-licensing systems; and for the British navicert arrangements to have continued would have been unfair to the British taxpayer, while leaving the British to accept responsibility for unpopular decisions. The Ministry itself insisted that the navicert machinery in the War Trade Department could not be kept in being after 31st March 1942. Agreement was quickly reached during January for the integration of the two systems, and from 1st April 1942 one document only, the United States export licence, was required for exports from the United States to the navicert area. United States representation on the Blockade Committee in London was necessary for administrative convenience in providing the export-licensing authorities with information about the British methods and decisions; but the United States authorities had no desire to go further.¹ Nor did they wish to see any change in the navicert machinery in Latin American countries; they agreed with the British view that it was undesirable for local export licences to be substituted for navicerts in these states.² Membership of the Blockade Committee meant that the United States Government shared responsibility with the British for the control of imports into neutral countries in the navicert areas. But while the Ministry's administrative methods were accepted, and its machinery utilized, the United States Government still refrained from defining the legal basis of its own collaboration.³ It continued to treat the 'blockade' as essentially a British concern, and to leave the Ministry the

¹ Here too they were following the precedent of World War I. In 1917 the failure to participate formally in the blockade was due in part to the desire not to compromise claims against the British for seizures of goods during the period of neutrality. Bailey, *op. cit.*, p. 479.

² Details of these arrangements are given in chap. V, pp. 153-6.

³ British officials noted that when it was a question of granting navicerts or exercising any sort of control at source the U.S. members of the Blockade Committee took a prominent part in the committee's deliberations. Whenever any questions of interception or seizure arose they stated with a smile that they had no instructions. This is the more surprising when it is remembered that the British were frequently reproached for insufficient toughness with neutrals and for insufficient interceptions (cf. pp. 441-2 below).

initiative in planning and enforcing the system of global quotas and compulsory rationing of neutrals.¹

There was a similar position in the case of enemy exports. British action in and after November 1939 against German exports had been based on the right of reprisal, thus recognizing the doctrine that enemy exports, apart from contraband, were not otherwise liable to seizure on neutral vessels. The United States Government as a belligerent appears to have made no statement of policy with regard to enemy exports save in terms that were consistent with the control of frozen funds. American firms and a number of Central and South American governments appear to have raised the matter from time to time, sometimes arguing that benefit would accrue to the defence of the Hemisphere if the importation of certain goods of enemy origin were permitted. During her period of neutrality the United States had at times accepted this view, and put pressure on the British Government to release enemy goods. Now the reply usually given was that 'it was contrary to the policy of the United States Government that there should be any transactions between the Western Hemisphere and Axis Europe'.²

The United States Government revealed its basic position rather more clearly in another field. The registration of all alien property in the United States had been ordered at the time of the freezing of European funds (14th June 1941), and after its entry into the war an 'Alien', instead of, as might have been expected, an 'Enemy' Property Custodian was appointed, on 11th March 1942. He was authorized to hold all alien properties in the United States of America for the benefit of the United States; and British property was, in law, as much subject to his control as that of German or Japanese nationals. Official expression was thereby given to the assumption underlying Foreign Funds Control that the United States Government had absolute rights over all alien properties in its territories.³

In thus basing her interference with neutral economic interests on the needs of her own security and of the cause to which she was pledged the United States, while neglecting to claim the established rights of a belligerent, might be said to be taking a realistic view of

¹ W. L. Langer, *Our Vichy Gamble* (1947), reflecting State Department views, refers to the blockade as 'the British blockade' eight months after the U.S.A. had entered the war (p. 266). D. L. Gordon and R. Dangerfield, *The Hidden Weapon* (1947), reflecting B.E.W.-F.E.A. views, recognize that 'the British cordially welcomed American participation in the Blockade Committee' (p. 185), but complain that 'the British cut the pattern and we helped with the sewing' and as a result 'the blockade was openly and vigorously criticized by American businessmen who felt that their interests were being subordinated to those of the British . . . Most of this criticism certainly had no foundation, but the suspicion was natural and it created the worst possible kind of public relations' (p. 188). M.E.W. could hardly be blamed for this state of affairs.

² Gordon and Dangerfield, *op. cit.*, do not throw light on this point, beyond a reference to 'enemy exports forbidden by the blockade regulations' (p. 190.)

³ Domke, *op. cit.*, pp. 13-14, 458-64, and the same author's later study, *The Control of Alien Property*, pp. 1-12; Barnett Hollander, *op. cit.*, pp. 167-8.

the limited extent to which genuine neutrality was possible in a total war.¹ It does not appear, however, that this was, in the first instance at any rate, a carefully-thought-out attitude, and it meant that at many points she was over-simplifying the nature of the problems that she and her ally had to face. Her self-sufficiency had however the positive merit of a superb confidence in her own resources, and a conviction that more was to be gained than lost by unorthodox methods which recalls the crusading zeal of the I.I.C. under Major (later Sir Desmond) Morton's leadership in England on the eve of war.²

The spirit which animated the more positive aspects of her economic-warfare policy can be seen in various pronouncements after her entry into the war. A good example is the section entitled 'The Battle of Economies' in the *Report to the Nation* presented by the Office of Facts and Figures on 14th January 1942.³ It contained no reference to cooperation with the Ministry of Economic Warfare or any other British agency, and only slight references to blockade.⁴ 'Economic warfare' was defined in the broader sense which comprised supply functions.

It is the battle of economies. It is a war of commerce and shipping, of barter and buying, of loans and agreements, of blacklist and blockade. It is starvation for our enemies and food for our friends. . . . It means fighting the Messerschmitt before it is a Messerschmitt, fighting the tank before it is a tank, smashing the submarine before it can go to sea. It means preventing the Axis from getting raw materials. It means getting raw materials for our own production.

For to prosecute war successfully in this age meant competition for raw materials which 'must be brought from every corner of the

¹ Mr. Thomas Finletter, writing with an intimate knowledge of the official American attitude, argued in 1947 that the principle 'that neutrals had rights, and that their trade was to be interfered with by the belligerents only to the very minimum' was a 'polite-war concept', which was first decisively shaken with the United States' entry into the war in April 1917. ' . . . the rights of neutrals and the status of international law took a sudden drop. Power had shifted. The great neutral of all had stopped being neutral.' The process was carried further in World War II. The giants were fighting, and the issue was survival. 'International law received scant attention from the men who were directing the economic warfare. Pressure on the neutrals was judged almost entirely by the question whether it would produce results harmful to the enemy's war effort. If some one occasionally talked of prize courts, or other techniques or rules of the polite-war period, he would not be likely to press his point against any evidence that a proposed line of conduct would help his side of the war.' (Gordon and Dangerfield, *op. cit.*, p. viii.) This passage shows some confusion between prize law and the neutral claim to 'normal trade' as a matter of recognized international practice. The neutrals were far more resourceful in resisting belligerent pressure than Mr. Finletter's remarks suggest. The British Government had, moreover, unlike that of the United States, formally accepted, and based her contraband control on, prize law as defined by the British courts. (Cf. E.B., i, chap. II, sections ii, iii.)

² E.B., i, 17.

³ In the form of a 'Letter of Transmittal' by Hon. Archibald MacLeish, Director of the Office, to the President: pp. 21-3.

⁴ 'Directing our campaign in this battle of trade, the Board of Economic Warfare aids the military in the establishment of blockades' (p. 25).

earth'. The Report went on to say that for many years before the war the enemy had sought to weaken America's military potential by patent control and cartel agreements whereby prices were kept up and the output down; 'concealed behind dummy corporations, the enemy went unchecked for years, using our own legal machinery to hamstring us'. In the summer of 1938 the Government 'began to fight back'. Investigation, exposure, anti-trust indictments, and decrees broke up many of the agreements that bound American traders. This was defensive action, but since April 1940 the Government had carried the economic battle to the enemy. The Report described Foreign Funds Control and the Proclaimed List as the two most powerful American weapons, and it added export licensing and the preclusive purchase of strategic materials as 'other weapons'. The success of these methods was regarded as already complete. 'It is now accurate to say that Hitler and his partners will find no further economic aid or comfort in the republics of the Americas.' More than \$7,000,000,000 of assets of 33 foreign countries had been frozen in the United States.

The Axis was using American dollars and American banking facilities to underwrite sabotage, spying, and a propaganda campaign in both North and South America. The blocking of Axis assets abruptly choked this poisonous stream.

Japan was even more severely hit, and the Report did not minimize the importance of the freezing of her assets in July 1941.

Japan's economy is heavily dependent on imports. So is her war machine. Japan's purchases of mercury—vital in certain explosives—increased 240 times in 1940 over the amounts acquired in 1938. . . . In a 2½-year period she bought 4,350,000 tons of scrap iron and steel here. This accumulation of stocks for the war that is now a reality ended on July 26 when the United States, Great Britain, and the Dutch simultaneously applied freezing control.

The justification for the measures taken was, finally, the benefit that would come to friendly nations with victory. 'If we have pioneered well, the blows struck in economic warfare will be blows struck for our future freedom and prosperity, and the freedom and prosperity of all friendly nations, large and small, everywhere.' The British embassy seems to have been satisfied that Mr. MacLeish's office knew the right way to talk to American audiences; the pamphlet compared more than favourably with a British publicity effort in a film called *The Big Blockade*, which was first shown in London in mid-January 1942.¹

¹ The *Spectator*, of 16th January 1942, commented: ' . . . as a result of an obvious abhorrence of that understatement which has been characteristic of all good film propaganda, we are treated to a whole series of most misleading exaggerations about the results which have so far been achieved by the blockading and the bombing of Germany . . . And

Administratively, Washington was, in the words of a British official 'a real Klondike in economic warfare' in 1942. During the first two months after America's entry into the war the Board of Economic Warfare appears to have had its head in dealings with the European neutrals, with results that were particularly marked in the case of Spain. The State Department appears to have begun to reassert itself in this sphere after Mr. Sumner Welles's return from Rio,¹ and the setting up of a 'Committee on Neutral Trade' was probably an early sign of this. The committee held four meetings in rapid succession in February 1942. It included representatives of the Board, the State Department, the Treasury, and the War Trade Department of the British embassy, and promised to be a useful means of concerting action, and of explaining to the ardent representatives of the Board the limits of their responsibilities. These 'enthusiastic young men' obviously assumed that 'the Committee was going to run the whole policy towards the neutrals' and a memorandum circulated at the first meeting on 11th February bore out this view, for it contained no reference to the rôle of the Blockade Committee in London. It was then explained that the latter was to be responsible, with American representatives, for fixing the quarterly quotas for the imports from all sources which would be permitted to enter each of the neutral countries. When Mr. Noel Hall referred to international law in relation to the Prize Court, one of the young men 'enquired rather fiercely how long we were going to try to fight this war in a gentlemanly manner'. A reconstruction of the committee soon took place and new terms of reference on 17th March recognized the position of the Blockade Committee; in its new form, with an experienced member of the State Department as chairman and also as chief of a 'Neutral Trade' Section of the Board, it could carry out the Board's more limited function of dealing with purely American export allocations within the Blockade Committee's permissive quotas. At the same time the State Department had done something to reassert its own position. The Board was probably still inclined to exaggerate its own freedom of action. Even the purely United States allocation of scarce commodities had eventually, if necessary through the Combined Raw Materials Board, to be built up into agreed Anglo-American allocations from resources under the control of the

surely no one will accept the war as nothing more than a battle of wits between Leslie Banks and a herd of buffoons.' After private exhibition in the United States it was suggested that to make the film suitable for American audiences it would be desirable to cut the scenes of a grotesque audience of representatives of occupied countries being harangued by Hitler (their docility tended to undervalue Germany's power of control, and therefore her strength), to avoid the impression that the war was carried on only through Britain's control of the seas, to change the commentary in order to give a greater sense of the urgency of more effort and of the assurance of American help to the Allies, to speed up action, and to supply more rapid and vivid commentaries.

¹ See below, pp. 139-43.

United Nations, whether in the British Empire, the United States, South America, or even the colonies of the importing countries themselves, as in the case of Spain and Portugal.

Then, on 13th April 1942, the President issued an Executive Order which gave the Board of Economic Warfare full authority in all matters relating to the external economic affairs of the United States; later, however, at a press conference on 2nd May, he said that there was no question about the State Department's being in full charge of the foreign relations of the United States and added, 'with evident sarcasm' according to the *New York Times*, that some persons in other parts of the government had not realized that. Behind this episode, which had considerable publicity in the American press, there was a triangular struggle over the pre-emption programme. Before Pearl Harbour, United States pre-emptive buying (then confined to South America) had been the responsibility of the Reconstruction Finance Corporation headed by Mr. Jesse Jones, the Secretary for Commerce and Federal Loan Administrator, through subsidiaries of which the Metals Reserves Board, Rubber Reserves Board, and Raw Materials Board were the most important. Mr. Jesse Jones's sound caution in finance, which had earned him a justifiably high reputation in public opinion, proved an obstacle in the pre-emptive field to the plans for preclusive buying of the Defense Materials Division of the State Department, for he was not prepared to pay more than world prices for the desired commodities, and at these prices pre-emption could usually not be effective.¹ The Board of Economic Warfare could play little part in the proceedings beyond making suggestions to the other two bodies. Owing largely it would appear to the initiative of Dr. Feis and Mr. Finletter of the State Department the United States Commercial Company (U.S.C.C.) was set up on 27th March 1942, in the hope that it would play a part similar to that of the U.K.C.C. But as the U.S.C.C. was one of the agencies of the R.F.C. there still seemed no certainty that funds would be forthcoming to implement a pre-emptive policy. It was this situation that led the Board to seek and secure from the President the executive order of 13th April, which gave it full power over pre-emptive buying, and allowed it to draw without question from the R.F.C. all the money needed for this purpose. Indeed, the text of the order gave the Board power, if it did not like the way in which Mr. Jones's agencies (including the U.S.C.C.) were carrying out its wishes, to replace them by new organizations of its own. This

¹ His opinion of B.E.W. is stated pungently in his memoirs. 'The Board of Economic Warfare was created, coddled, and finally killed by President Roosevelt himself' (p. 484). 'There was no need whatever for the creation of the B.E.W.; but, had it been put in charge of practical men and in its proper place, it would have been a relief to me and to the R.F.C. because we had so very much war work' (p. 490). Jesse H. Jones, *Fifty Billion Dollars: My Thirteen Years with the R.F.C.* (New York, 1951).

was regarded as a major political setback for Mr. Jones; but it was also a setback for the State Department, for the Board was authorized and directed to 'determine the policies, plans, procedures and methods of the several Federal departments, establishments and agencies with respect to the procurement and production of such materials and commodities, including the financing thereof', and to 'represent the United States Government in dealing with the economic warfare agencies of the United Nations'; it might also 'arrange through the Department of State to send abroad such technical, engineering, and economic representatives responsible to the Board as the Board may deem necessary'.¹

The assumption was that the President, in giving the Board a free hand in the financing of pre-emptive purchases, had unwittingly signed away the State Department's prerogatives, and had had the enormity of this proceeding explained to him by Mr. Hull on 1st May. The President's 'clarification' of the earlier order was issued on 21st May, and directed that 'in the making of decisions, the Board and its officers will continue to recognize the primary responsibility and position, under the President, of the Secretary of State for the formulation and conduct of our foreign policy and our relations with foreign nations'. Detailed instructions as to the machinery of consultation between the two agencies followed, but the effect of them was that the Department of State could veto any proposed pre-emptive and other transactions on the ground that they were politically undesirable, and that it remained the main channel for communication with the Ministry of Economic Warfare.²

The decision was in general a relief to the British officials, who felt that they had to move with considerable circumspection to keep the goodwill and confidence of their American friends. As the State Department could claim to be the correct channel for communication between the British embassy and other American governmental agencies, the independent authority of B.E.W. would have created endless complications.³ In so far as the 'clarification' left some

¹ Executive Order 9128: Defining additional functions and duties of the Board of Economic Warfare—13th April 1942.

² Clarification and Interpretation of Executive Order 9128 of 13th April 1942, in respect of certain functions of the Department of State and the Board of Economic Warfare—21st May 1942.

³ This affected the position of the Economic Warfare Division of the United States embassy in London. By the spring of 1943 it had become clear to the Ministry that the State Department did not wish to see the powers of the Division grow; this was not considered to be due to any jealousy of M.E.W. but to lack of confidence in B.E.W., from which the E.W. Division emanated. The State Department did not encourage the tendency of M.E.W. to make more use of the E.W. Division for the exchange of views, and the Division was handicapped by inability to obtain either information or instructions from Washington. The State Department, being determined to keep control over economic warfare policy on the American side, made it clear in April 1943 that it was anxious that discussions with the British Government should be conducted as far as possible in Washington, either direct with the War Trade Department of the British embassy, or in the operating committees on which the State Department (which had

division of authority, however, it was not a complete solution.¹ The U.S.C.C. still had three contentious parents. The Board of Economic Warfare retained its theoretically-unlimited financial powers; Mr. Will Clayton, Mr. Jesse Jones's assistant, was chairman of the Board of the U.S.C.C.; finally, the R.F.C. and the State Department could intervene if in any particular instance they felt it necessary to fight.² In short, in the field of pre-emption as well as in that of supply there was likely to be further dispute before agreed policies could be devised for economic-warfare relations with the European neutrals. To this it must be added that the War and Navy Departments took a very forceful line in these discussions, and looked with evident disfavour on any supplies at all being sent to neutrals—and particularly Sweden—who were known to be helping the enemy.

Supply and purchase were so closely linked as to form in the Iberian Peninsula two sides of a single programme. In Sweden and Switzerland purchases could not play the same part (owing to difficulties of bulk transport to Allied destinations), and in Turkey political considerations reduced the bargaining advantages of both supply and pre-emptive operations. After the setting up of the U.S.C.C. in the spring of 1942 American plans for preclusive purchases were rapidly developed, in close collaboration with the British agencies concerned. By June it was recognized that the three southern neutrals (Spain, Portugal, and Turkey) would constitute the main field for large-scale preclusive buying, and that the U.S.C.C. would have to handle other United States purchases in these countries. In April the Preclusive Buying Division (later called the Preclusive Operations Division) was set up in the Procurement Branch of the Office of Imports (B.E.W.) to 'be responsible for the strategic procurement of materials from foreign countries threatened with Axis domination'. In June the Assistant Director of the Office of Import (B.E.W.) stated that the U.S.C.C. would do the purchasing of materials in Spain, Portugal, and Turkey, and that the Preclusive Buying Division would be the 'focal contact point' with the U.S.C.C.

created them), the B.E.W., and the War Trade Department were all represented. This did not lessen the State Department's high personal regard for Professor Riefler, the head of the Division, and the Ministry, which also had a high regard for Professor Riefler and would have liked to see more use made of him and his staff, felt that its position was 'rather delicate'. In practice, however, it fell in with the State Department's desire to make the War Trade Department the main channel of discussion. Mr. Winant's complaints of neglect by, and lack of information from, the State Department (cf. *The White House Papers of Harry L. Hopkins*, i, 269; ii, 750-2) suggest that the problem had wider significance than M.E.W. perhaps imagined. Cf. Duncan Hall, *op. cit.*, p. 267.

¹ Cf. Mr. Sumner Welles's comments on the difference between the State Department and the Board of Economic Warfare in *The Time for Decision* (Harper, New York, 1944), p. 217.

² 'When we thought the orders were proper, we complied promptly. When we thought the orders were not what they should be, we tried with great patience to reason with them. By them, I mean Messrs. Wallace, Perkins, Rosenthal, Oppenheimer and their more uppity underlings.' (Jesse H. Jones, *op. cit.*, p. 490.)

The administration of preclusive operations soon became a complicated one. Some body was needed to coordinate discussions and reach a final decision to be cabled to London and to the neutral capitals concerned. This was found in two inter-departmental committees, the Iberian Peninsula Operating Committee (I.P.O.C.),¹ set up in the spring, and the Turkish Committee, set up in the autumn; by these means the opinions of the Preclusive Operations and Blockade Divisions of B.E.W., the State Department, the U.S.C.C., and the British embassy in Washington could be reconciled. In addition C.R.M.B., the War Production Board, and the Lease-Lend Administration (for Turkey) were often represented. Meetings took place two or three times a week. Preliminary meetings were held to unify American policy prior to the beginning of regular meetings with representatives of the British embassy. While the Turkish Committee was primarily concerned with preclusive matters, I.P.O.C. soon found that it must seek to iron out all economic-warfare problems relating to Spain and Portugal and their colonial possessions, and not limit itself to pre-emption. In October 1942 a Middle East Supply Committee was also set up in Washington; it included representatives of the State Department, Lease-Lend Administration, B.E.W., the British Supply Council, and the British embassy.

While the Americans felt it useful and necessary to accept at first the basic British arrangements for the blockade and the war trade agreements they were soon taking a very active, and at times the leading, part in pre-emption. Although British experience in this field was already extensive by 1941 operations were limited by foreign exchange shortages and United States buying power came on the scene at an opportune moment. The preclusive buying programme was rightly regarded by the United States authorities as one of the most striking examples of British-American cooperation during the war, and we may perhaps agree with the comment of an official of F.E.A. in 1946: 'the objectives of the two countries in this field coincided more closely than in military and naval strategy, civil defense and other phases of warfare'. The British and American field organizations worked well together. Allowing for some divergence of temperament, possibly mutually advantageous, and for some divergence of political and economic interest in the neutral countries, it can be said that the British and Americans held in general the same objectives. In Latin America the primary aim of both governments in 1941 was to keep war material away from the Axis; South American mineral producers had been enjoying a business boom through sales to Japan of Bolivian tungsten, Chilean copper ores, Mexican

¹ Its origins and terms of reference are discussed by H. Feis, *The Spanish Story* (New York, 1948), pp. 161-3.

mercury, and Brazilian beryl. Until the end of the year the British pre-emptive campaign sought to prevent these leakages, but, from May 1941 onwards, the United States purchase agreements were providing more and more comprehensively for most of this production to be earmarked for members of the United Nations. When this programme was fully established the British dropped out of the pre-emption campaign almost entirely, and the main objective of the United States purchasing programme was then to stimulate production by guaranteeing the foreign producers a market.¹ In Europe there was a very much more complicated situation; here Axis competition had to be met, neutral governments might be suspicious, timid, or obstructive, and it was almost inevitable that the British and American viewpoints should differ on many questions of tactics.

Both were agreed as to the main factors influencing the choice of commodities for purchase.² The commodity must be indispensable to the enemy; it must be important to his war economy; there must be a genuine shortage; it must have a certain bulk (it was no use pre-empting diamonds); it must be irreplaceable (there was no point in purchasing it if the enemy had an easily available substitute). The surplus of the commodity in the neutral country must, moreover, not be too large, nor must it be susceptible to easily increased production. For this reason certain goods which were undoubtedly of some interest to the Germans, such as Spanish oranges or Portuguese tuna fish, were not considered to be desirable purchases. The production of certain minerals such as wolfram had rapidly increased, and although they had sometimes to be bought the drain on the Allied resources made caution all the more necessary in other cases. If the surplus was very small and not an important source of revenue to the neutral it might be possible to prevent export to the enemy by other means than pre-emptive buying, such as the arrangement of an export embargo. The British purchasing agencies would probably have accepted too, in principle, the basic American assumption that the significant question was whether Germany was buying the commodity in question. On this point, however, more than any other, there were doubts on the British side. The long discussions about pre-emptive policy in the summer and autumn of 1942 showed that B.E.W. was inclined to think the British too cautious and the Ministry's view was that whenever B.E.W. heard that the enemy was negotiating for a commodity in a neutral country it felt inclined to rush right in and buy the whole exportable surplus. The danger was

¹ Further details in chap. IV below, pp. 129-34.

² For the earlier development of British pre-emptive policy and the U.K.C.C., see E.B., i, 247-8. Lord Swinton, the first chairman of the U.K.C.C. (1940-2), gives a sketch of its history in chap. XIV of his memoirs, *I Remember* (London, 1948). When he became Minister in West Africa in 1942 he was succeeded as chairman of U.K.C.C. by Sir Francis Joseph.

that the Allied purchasing power might be absorbed on goods of secondary importance. No neutral was at this stage of the war prepared to carry unlimited amounts of unusable foreign exchange, whether in sterling or dollars. By the autumn of 1942 the Spaniards were refusing to accept any more dollars. In January 1943 the Ministry had again to complain that the Americans were showing a tendency to issue directives to their representatives in Lisbon and Madrid without prior consultation with the British; it was thought that this was mainly due to the failure of the American officials in Washington to appreciate that the possibility of pre-emption was governed by the availability of the local currency concerned. Later in the month, however, after the Ministry had had some rather worried discussion with the Treasury on the point, the Americans sent proposals to London which were thought to show 'a more realistic appreciation of the situation'. A further point was the tightness of shipping. The Ministry of War Transport warned M.E.W. of the increasing difficulty of providing shipping for pre-emptive purchases. The Ministry was also uneasy at the American tendency to take the risk of purchases which were illegal under the laws of some neutral countries. There was a danger that the Allies would lose more than they gained if the neutral government turned sour.

There were also long and complicated (but quite amicable) discussions as to the best means of making use of the special resources of each government in the various neutral states in Europe. It was finally found convenient for financial reasons for the British to take the lead in Turkey; the bulk of the expenditure in Portugal on the other hand was borne by the United States. B.E.W. in its enthusiasm had wider plans, which however came to little in the end, for pre-emptive operations in France, Switzerland, North Africa, Morocco, Iraq, and Iran. Turkey and the Peninsula remained the main field of activity.¹ There also continued to be a domestic threat to the United States' preclusive programme as long as the issue between B.E.W. and the R.F.C. remained open. In an attempt to solve the problem in B.E.W.'s interest Mr. Wallace issued his 'order No. 5' in January 1943 (when the President was at Casablanca) and this touched off six months of further interdepartmental crisis; Mr. Jesse Jones says in his memoirs² that 'in a final exasperated effort to try to please Mr. Wallace and get his long-haired, incompetent, meddling disciples out of our hair' he agreed to meet some of the B.E.W. demands over the U.S.C.C., but further disagreement led to the open quarrel between Mr. Wallace and Mr. Jones in July. The problem was at last resolved in the President's Executive Order

¹ These matters are dealt with in more detail in the Turkish, Spanish, and Portuguese chapters which follow.

² Jesse H. Jones, *op. cit.*, p. 492.

No. 9361, of 15th July 1943, which set up the Office of Economic Warfare, and transferred to it both B.E.W. and the U.S.C.C.¹

A tendency to rely exclusively on American resources, and a refusal to consider neutral claims or interests by any standard other than their value to the Allied cause, thus appear to be the broad clues to United States economic-warfare policy after Pearl Harbour, with the important reservation that in 1942 the inter-departmental conflict in Washington was still unresolved, and the extent to which these principles could be applied was still in debate. For the British it was often difficult to say whether a particular American initiative was due to one or other of these circumstances. The tendency to act alone had some notable examples in Latin America, and difficulties on this point came to a head in the early spring of 1942, when discussions between the United States embassy and the Brazilian Government about the Proclaimed List reached an advanced stage before their character was reported to any British representative (see page 147 below). An attempt to restrict Swedish trade with Argentina because of the latter's neutral status was a further expression of the view that the pan-hemisphere economic policy justified a reduction of the traditional rights of aliens—in this case the right of a neutral Argentina to trade with a neutral Sweden. The reluctance of the British to join with the United States in interrupting this trade by visit and search helped to delay the negotiations for an Anglo-American-Swedish war-trade agreement during the latter part of 1942 (see Chap. VI below).

In Europe the combined negotiations of the two powers with Spain, Portugal, Sweden, and Switzerland was also complicated by these differing views of neutral rights, and at an earlier stage, before the Ministry had come to understand fully the extent of this divergence, by some failure on the part of the United States departments to explain or decide on their own programme. This was partly because of a genuine hesitation in the first months of 1942 to differ from their more experienced British colleagues, although this diffidence seems to have largely vanished by the spring.² In July 1942 the Ministry grumbled that its dealings with all the neutral countries were being made extremely difficult by the recent tendency of the United States Government to ignore British views in economic warfare, 'while

¹ The Board had two further changes of title: it became the Office of Economic Warfare within the Office of Emergency Management by Executive Order 9361 of 15th July 1943, and then the Foreign Economic Administration under Executive Order 9380 of 25th September 1943. There is a good summary of the departmental struggle in *The United States at War*, *op. cit.*, pp. 421-8.

² A telegram from the embassy to M.E.W. on 24th April 1942 remarked: 'Staff of B.E.W. generally regard themselves as at last freed from their fetters. They are anxious to be up and doing. They feel that they have been put off too long by the conventional answers and outworn Shibboleths of the permanent United States Government Departments.' The President's executive order of 13th April 1942 had not yet been 'clarified'.

expecting the fullest co-operation from us'. The American officials also tended to treat all European neutrals alike on a basis of expediency, so that the United States authorities would look for an adequate and immediate *quid pro quo* for any supplies reaching a neutral country, whether these supplies came from the United States or from other Allied or neutral territory. It would have been consistent with the basic United States doctrine which underlay the system of Foreign Funds control to refuse facilities to non-belligerent friends of Germany on the ground that their status implied an intention to aid the aggressors. But in practice this distinction between 'aggression-aiding' and 'legitimate neutral' trade was not drawn, and Sweden was for a long period submitted by the United States Government to treatment as severe as—or perhaps more severe than—that given to Spain. Probably the decisive factor in this case was that during the second half of 1942 the prospect of a North African campaign rendered the expediency of a relatively conciliatory political attitude in the Iberian peninsula obvious to the U.S. Chiefs-of-Staff, who were less easy to convince in the case of Sweden or Switzerland.

In short, the United States Government was acting on the assumption there was no inviolable right of access to the international financial and commercial system or to the freedom of the seas; there was only a limited right restricted to those who conformed to a code of international conduct, instead of, as in the British tradition, to those with whom the government was not in a state of war. One of the consequences of the absence of any principle to which the Ministry or the State Department could appeal as a basis for neutral supplies was that strategical considerations became the normal criterion of action. The State Department had accordingly to argue with the other agencies of the Government on their own grounds: it had to claim in the case of Spain to have a better sense of what was strategically necessary and desirable than the United States War and Navy Departments, and in the case of supplies of scarce materials for Sweden it had to argue on supply grounds against its own supply departments. At the same time its differences with the Board of Economic Warfare remained, for it could never finally define its own sphere of responsibility as custodian of the relationships between the United States and other foreign, and particularly neutral, governments.

The absence of an adequate American 'enemy-economic intelligence' organization also contributed to these difficulties in the co-ordination of policy. After the middle of 1941 and increasingly during 1942 several agencies of the United States Government began to collect information about Axis requirements but these activities were not at first well coordinated and they were often too general and academic in character to be of much value as guides to day-to-day

policy. As a result the judgment of the State Department upon the activities of the European neutral governments and of the Weygand administration in North Africa was, for a time, somewhat erratic. The British tended to be satisfied if they succeeded in reducing or eliminating supplies of commodities which the Axis urgently needed; if this end were achieved they were less concerned about the movements of commodities not in short supply in German Europe. Their greatest pressure was reserved as a counterpoise in those cases where the Axis was itself exerting serious pressure, and, used in this way, it might on occasion be positively helpful to the neutral government itself. The State Department, in the absence of precise information, followed at first a less clearly focused policy and even appeared at times to increase or decrease pressure upon other governments according to its judgment of political feeling inside the United States. It was partly the lack of technical advice that caused the long vacillations in policy towards French North Africa in late 1941 and the first half of 1942, when some officials in the State Department were inclined to think that the distinction drawn by the Ministry between gasoline and kerosene or between fine tropical uniforms and cheap cotton piece goods suitable for the native populations was British political or commercial opportunism and not part of a carefully-studied policy. It is important to remember that before her entry into the war the United States Government had established no systematic study of the technical problems of economic warfare similar to those which the Industrial Intelligence Centre had been elaborating in Great Britain for some years before 1939.¹ As soon as the United States had established its own economic-intelligence service these difficulties were greatly reduced, although they never quite disappeared. Throughout the war, and particularly in 1942 and 1943, B.E.W. and later F.E.A. relied heavily on economic appreciations of German economy supplied by the Enemy Branch of the Ministry.

¹ E.B., i, 23.

CHAPTER III

SANCTIONS AND WAR IN THE PACIFIC

(i)

The Butler Committee

THE most striking achievement of United States economic defence was its paralysing of Japanese-American trade after July 1941, and we may regard the story of economic warfare in the Pacific from one angle as a case study in the unorthodoxies of blockade policy outlined in the last chapter. For Great Britain, however, the economic problems of the Far East had a more direct connexion with the European war, and had produced at a much earlier stage a clear line of policy, than was to be expected in Washington. In the first volume of this work the story of economic-warfare activities in the Far East was not taken much beyond July 1940, for it seemed desirable to give a connected account at a later stage of British relations with Japan during the eighteen months before Pearl Harbour. We can now describe these developments and their *dénouement* in the American-British-Dutch freezing policy of 1941.

During the first phase of the war Japan had been disinclined to challenge the Allied military or economic activities very seriously; Great Britain and other Empire countries had limited exports to Japan to normal peace-time figures, and it had even been found possible to begin discussions in May 1940 for an Anglo-Japanese trade agreement. The German victories turned her from an unsympathetic neutral into an unfriendly pre-belligerent, and for some weeks the possibility of Japanese attack on the more or less defenceless British, French, and Dutch possessions dominated all Allied plans for an economic policy to meet the new situation. On 17th July 1940 the British Government agreed to close the Burma Road for three months; on the same day the Yonai Government, which had been in office since 15th January 1940, fell, and was succeeded by a new government under Prince Konoye, with the sinister figure of Lt.-General Hideki Tōjō as Minister of War, and with Mr. Yosuke Matsuoka, the Japanese representative at Geneva in 1932, as Foreign Minister. The arrest of twenty British subjects in Japan and

Korea followed almost immediately; but a number of Japanese nationals were thereupon detained in London, Hong Kong, Singapore, and Burma, and this seems to have had a sobering effect in Japan. The anti-British agitation did not develop further for the moment. By the end of July 1940 there were signs of uncertainty in Japan as to how far and how rapidly the expansionist programme should be pushed; but it also seemed that while limited measures of conciliation by Great Britain might for the moment damp down the more extreme forms of anti-British agitation they would merely strengthen the expansionist tendencies of the Japanese Government unless they were firmly linked to a policy of reciprocity. Of this there was no sign, and during August and September the Ministry of Economic Warfare could do little more than watch events, and await the result of the Battle of Britain. No further progress could be made in the war-trade negotiations with Japan after 28th June 1940, but discussions on Far Eastern matters with the United States and the Netherlands Governments became correspondingly more urgent.

The general desire of the government and public in the United States to see the creation of effective barriers to Japanese aggression was not accompanied at this period by any intention to take action that would risk war. Immediately after taking office as prime minister in 1937 Mr. Neville Chamberlain had proposed a joint Anglo-American *démarche* to end the Sino-Japanese dispute, and in October and November 1937 Mr. Eden had promised that the British Government would go as far and as fast as the United States in applying sanctions against Japan; but these approaches seem merely to have raised the spectre of entangling alliances in Washington. While condemning any action which might be interpreted as a condoning or appeasing of Japanese aggression the United States Government had found in the existing state of public opinion sufficient reason for inaction.¹ The United States continued to be the biggest supplier of goods needed for the Japanese war effort in China, although the moral embargo policy and the non-renewal of the Japanese-American trade treaty in July 1939 were reminders (which Japan scarcely needed) that she could hurt if she chose. In the summer of 1940 Mr. Cordell Hull's policy towards Japan was still one of all quiescence short of acquiescence rather than of all aid to the democracies short of war.

An account has already been given² of certain United States

¹ Herbert Feis, *The Road to Pearl Harbor, The Coming of the War Between the United States and Japan* (Princeton, University Press, 1950), pp. 8, 10, 11, and chaps. 1-5 generally for pre-1940 developments. I have followed this scholarly and objective work, based on State Department and other unpublished sources, for interpretations of United States policy which were not available to British officials at the time.

² E.B., i, 427; 476-83.

restrictions which were imposed at this point on Japanese-American trade. The most important of these was the limitation of the export of aviation petrol to countries of the Western Hemisphere, announced on 31st July 1940. At the same time iron and steel scrap was placed on the Export Licensing List. During July the State Department fought and defeated a proposal by Messrs. Knox, Stimson, and Morgenthau that the United States should cut off all supplies of oil, including lubricating oil, to all foreign countries including Japan, and further proposals on the same lines in August and September met with the same fate.¹ In the meantime the immediate result of the restriction on aviation petrol exports was that the Japanese demanded more from the Netherlands East Indies; but the Secretary of State still seemed reluctant to accept the view that without a promise of United States support the British, and still more the Netherlands, Governments could not risk war in defiance of Japanese demands. The Ministry concluded that while American intentions were excellent the embargo of 31st July had been imposed without full understanding of the essence of the problem, which was that no restrictions would be effective unless they were on a global basis, and were accompanied by a willingness to resist Japanese retaliation. On 26th September the export of iron and steel scrap was restricted as from 16th October to Great Britain and countries of the Western Hemisphere.

In the meantime the British Government was in the process of thinking out the implications of its own Far Eastern policies in view of the unwillingness or inability of everyone concerned (including apparently the Japanese) to force any issue at this time to the point of war. The essential fact in any blockade calculations was Japan's abnormal dependence on overseas supplies of raw materials, and the British Government had never been under any illusion as to the vulnerability of her economy.² To maintain the military and political standing of a great power she needed industrial strength which she could never draw from her meagre native resources of high-quality coking coal, iron ore, scrap iron, and ferro-alloy ores, the essential ingredients of a massive steel industry; her deficiencies in other commodities, such as rubber, tin, and above all oil, were also well known. Since her resources of coal suitable for coke production were limited, and her domestic production of iron ore was small, she had found it necessary to rely far more on scrap than on pig iron in the

¹ Feis, *op. cit.*, pp. 90-3, 124-5. Mr. Sumner Welles describes his own part in defeating this plan in *Seven Major Decisions* (Hamish Hamilton, 1951), pp. 89-90. See also E.B., i, 476-7.

² See for example Sir Robert Craigie's comments on Japanese difficulties after the end of the first year of the Sino-Japanese war (Craigie to Halifax, 9th Sept. 1938, No. 683: *Documents on British Foreign Policy, 1919-1939*, ed. E. L. Woodward and R. Butler, Third Ser., viii, 79-81).

production of steel; and as the output of steel in turn was too small to produce substantial quantities of scrap, large imports were essential. These came mainly from the United States. Imports during 1940 still made up 32 per cent. (1,391,000 m. tons) of her total consumption of iron and steel scrap, and 82 per cent. (5,719,000 m. tons) of her iron ore supplies. Almost all her imported coking coal came from North China. The same dependence on foreign supply was necessary for the ferro-alloy ores, in spite of substantial increases during the 1930s in the domestic production of chromium, manganese, molybdenum, and tungsten ores. Her industrial position had been considerably strengthened by her conquests since 1931; the 'Inner Zone' (comprising the Japanese Home Islands, Karafuto, and the controlled territories of Manchuria, Formosa, and Korea) together with the occupied parts of China could at least supply her economic machine for the continuance of her war with Nationalist China. But she still had before her the gnawing anxiety of her dependence on sources far beyond this area for oil and a variety of products which, taken together, were indispensable; and she also had the glittering prospect of a Greater East Asia Co-Prosperity Sphere which, secured by the domination of French Indo-China, Siam, Malaya, and the Netherlands East Indies, would give her the control of vast and certainly adequate supplies of petroleum, iron ore, coal, bauxite, and rice, and most of the world's supplies of rubber, antimony, jute, quinine, and tin. Her hesitations were due in large measure to a realization of the dreadful risks that she would run in extending her lines of conquest any further; she would be highly vulnerable to naval attack on her long supply routes from South-Eastern Asia, and could never hope to win a major war against the United States. Thus with an undefeated United States Navy in the Pacific and an undefeated Soviet Army on her Manchurian borders she had no certainty of final victory, even if British, French, and Dutch resistance proved negligible in South-Eastern Asia.

Given these facts it seemed likely that Japan would seek in the first instance to dominate French Indo-China, Thailand, and the Netherlands East Indies, taking advantage of the mood of bewilderment in each country following the German victories, while striving to avoid war with Great Britain or the United States. For this reason some demonstration of United States concern for their independence would have been psychologically valuable, and it was the aim of British policy to combat any excess of pessimism which might lead them to voluntary surrenders, while policy was evolving with a wary deliberation in Washington. The fate of these areas was vital to British economic-warfare policy which had, ideally, four objectives: (1) the reduction of various imports into Japan, in order to limit as far as possible her war-making capacity; (2) the cutting-off

of supplies from these areas to Germany; (3) the continuance of supplies from them to adjacent British possessions; and (4) the avoidance of any action that would precipitate a Japanese attack on any British or Allied possessions in the Far East. While it could be argued that a policy so cautious as to avoid Japanese reactions would scarcely be likely to allow any considerable reduction of her imports—in short that the first and the fourth of these aims were incompatible—it was in keeping with the new mood of the British Cabinet to despair about no situation, however objectively unfavourable; and it must be remembered that the policy had a double purpose. The aim was to restrict Germany as well as Japan, so that even if Japan secured enough for her own purposes she might be deprived of an exportable surplus which would benefit her Axis partners in Europe.

This double purpose was clearly seen in the case of rubber, the most important of the products which Thailand and Indo-China might supply to Germany by way of Japan and the Trans-Siberian railway. Estimates in the Ministry as to German stocks and requirements showed the usual fluctuations. In November 1940 it was estimated that Germany would end 1940 with no significant stocks; in January 1941 a 'good source' gave the actual stock figure at the end of 1940 as 9,000 tons, which presumably included rubber in all forms. In mid-March 1941 recent information, believed to be highly reliable, showed that in 1941 the Germans expected to consume 122,000 tons of rubber and that their requirements were to be met by a domestic production of 62,000 tons of synthetic rubber, stocks of 21,000 tons, and imports of approximately 40,000 tons, of which 4,500 tons were to be obtained from Brazil, 6,000 tons from N.E.I., and 30,000 tons from French Indo-China. These figures suggested that work on synthetic rubber plants in Germany had not proceeded nearly so far as had been expected, and exposed clearly enough the falsity of German propaganda regarding the volume of industrial production and the suitability of synthetic products as a substitute for the natural product. With this urgent German need for crude rubber in mind it was the object of the Ministry to limit supplies to Japan so that even if Japanese requirements were met there would be little or no surplus to pass on to Germany.

Thus at the beginning of September 1940 the policy which was to be followed in the Far East during the next twelve months had begun to take shape. Lord Halifax told his colleagues on 4th September that 'we ought so to handle the situation as to leave ourselves free to open the [Burma] road, if we should decide to do so. To this end we should decline to allow the Japanese to extend the scope of the existing agreement, and should emphasize its temporary character . . .' He said also that he had instructed his department to consider, in consultation with the other departments concerned, 'whether

we could offer any economic inducements to Japan which would prove so attractive as to keep her on the paths of virtue'. Mr. Churchill agreed. Although a successful conclusion to the air battle over Britain would greatly increase British prestige it would not materially affect the military position *vis-à-vis* Japan; the right course was, therefore, he said, to go some way in offering inducements to her, and possibly also to go some way in using threats, 'but not to commit ourselves irrevocably to forcible action'. During September the Foreign Office came to the conclusion, in the course of the Washington discussions on an oil embargo,¹ that it was not to Britain's interest that the United States should be involved in war in the Pacific—a view which met with some criticism. It was not easy, however, to contest Lord Halifax's argument that if the United States became involved in war the result might be to shut off the supply of arms that Britain needed to fight her principal enemy, Germany. But he thought that there might be several ways 'in which we should be able to cause inconvenience to the Japanese without ceasing to act politely', and he proposed the appointment of an interdepartmental committee on Far Eastern affairs, to coordinate activities in this sense. Finally the War Cabinet decided early in October that it would be unwise to take any steps which forced the Japanese into war, but that it should be made clear to Sir Robert Craigie that if the United States were at war with Japan, Britain would certainly declare war on that country. It was also agreed that the non-renewal of the Burma Road agreement should be announced in Parliament on 8th October.

To deter Japan without producing war thus became the government's aim during the winter of 1940-41. Mr. R. A. Butler, Under-Secretary of State for Foreign Affairs, was appointed chairman of the interdepartmental committee. Its instructions were to review and make recommendations on Far Eastern policy in the light of the Tripartite Pact and of further developments as they occurred, with particular regard to cooperation with the Dominions and the United States; to coordinate action on questions affecting Japan and on any measures of precaution or pressure which might seem appropriate; and to organize measures to facilitate resistance to Japan and to diminish her war potential. Nevertheless 'in carrying out the above tasks, the committee will bear in mind the importance of avoiding conflict with Japan so long as this is possible without serious detriment to our position in the Far East'.

If war were avoided, economic restriction would provide the chief means of pressure. On 27th September the Tripartite pact between Germany, Italy, and Japan was signed in Berlin. There was no immediate counter move in Washington. Efforts to persuade the United States Government to move a portion of its Pacific fleet to

¹ E.B., i, 481-4.

Singapore, either as part of an extended cruise or in order to use the port as a base, were without result. In a telegram to the President on 4th October, Mr. Churchill emphasized the deterrent effect of such a move on Japan, and a few days earlier Lord Lothian had argued that even if Gibraltar, Suez, and Hong Kong fell an American fleet based on Singapore could control the trade routes from Europe to the east and prevent Germany and Italy from obtaining supplies from that area.¹ But during the winter the naval authorities in Washington continued to make successful objection to any movement of ships west of Pearl Harbour. The Far Eastern Committee in London was thus left with some more or less disguised system of blockade as the chief means of action. It at once set up an Economic Sub-Committee under the chairmanship of Sir Frederick Leith-Ross, Director-General of the Ministry, and with the following terms of reference.

- (a) To consider measures for the control of trade between Japan and the several parts of the Empire with a view—
 - (i) to the formulation of a common Empire policy; and
 - (ii) to the alignment of such a policy with those of the United States and Netherlands Governments;and to report to the main committee;
- (b) to advise on the treatment of any individual cases of especial difficulty affecting more than one department which may arise in the current administration of the control.

General lines of policy were worked out during the first half of October, in accordance with what seemed at the time to be the meaning of events. The Battle of Britain was still raging; the Vichy Government had agreed to the military occupation of Tonkin on 22nd September; negotiations between the Netherlands Government and the Japanese were to begin in Batavia on 16th October; the United States Government, although suspicious enough of Japanese intentions and alleged Allied 'appeasement', could contemplate neither economic nor military action. On the other hand there were many signs that the Japanese were not in a position to embark on any important new military venture at the moment; the decision to reopen the Burma Road was announced on 8th October, and the reopening on the 18th passed off without any noticeable reaction from the Japanese press or Foreign Office. It might, then, be practicable to impose limitations on exports to Japan from Empire and Allied sources, but it would be necessary to advance cautiously in order to keep in step with the United States.

Proposals for action against Japanese trade were sent to Washington and the Dominion Governments in telegrams on 19th October.

¹ W. S. Churchill, *Their Finest Hour*, pp. 497-8, 667-8; W. L. Langer and S. E. Gleason, *The Undeclared War, 1940-1941* (1953), pp. 38-42.

Up to this point the Commonwealth countries had, generally speaking, limited exports of key commodities to Japan to normal pre-war proportions, although certain commodities largely controlled in the Empire, such as nickel, jute, and mica, had been more drastically restricted. The United States had imposed the 'moral embargo' on a smaller range of exports and had entirely prohibited exports of aviation petrol and scrap iron under the Defense Act, but other exports such as copper were entirely unrestricted. The committee's proposals merely accentuated the difficulties of fitting these two systems together.

The telegram to the Dominions suggested that the problem must be approached under two heads, namely (1) interim measures to be put into force immediately throughout the Empire in order to prevent Japan from assisting the enemy in Europe and from accumulating stocks of strategic raw materials, and (2) the development of a joint economic policy towards Japan on the part of the United States, the Dutch and other Allied Governments, Dominion Governments, and the British Government. The greatest possible importance was attached to the early realization of (2), but as there would necessarily be some delay before joint discussions could take place, it was important that earlier agreement should be reached within the Empire as to the interim measures, in which the United States Government was also being asked to join. The 'interim' measures proposed were the following:

- (1) To bring the export of at any rate all essential goods, including all raw materials, under strict control (i.e. permitted only under licence) in each part of the Empire. For the purpose of such export licensing Japan should be treated henceforth as a 'dangerous destination'.
- (2) Then to draw up a list of the essential goods which were Japanese or Axis deficiencies, and which it was especially important to control.
- (3) As soon as the necessary machinery was available the immediate policy should be to limit the volume of essential exports, by the use of export licences, to at least normal trade. In order to avoid the danger of trans-shipment it would be desirable to limit exports to China and Manchuria also to normal figures, except where stricter embargoes were already in force.

The telegram made it clear that the British Government had 'no desire pending joint discussions with the United States and other governments to advance too rapidly in the field of restrictions or in such a way as might provoke Japan to rash action'. Stricter limitation on commodities of strategic importance which could be controlled, such as jute, wool, manganese, lead, zinc, pig iron, ilmenite, bauxite, and phosphates, should, however, be gradually introduced,

and further embargoes should be imposed where this could be justified on supply grounds. The British Government was prepared to adopt the interim programme for the United Kingdom and Colonial Empire immediately.

The telegram to the British *chargé* in Washington (Lord Lothian was visiting England) explained the proposals that were being made to the Dominion Governments, and strongly urged the United States Government to cooperate by immediately extending its list of commodities requiring export licences to include if practicable all essential goods, and to limit exports of these to Japan to normal figures. This corresponded with the 'interim' programme outlined to the Dominions. The telegram claimed that 'if such a system could be immediately adopted it would prevent Japan building up stocks'. It went on to propose joint discussions by the United States Government with the British, Dutch, and Dominions in London as soon as possible. 'We should do all we can to keep them secret.'

There had already been informal discussions between British and American experts on the export licensing lists of the two countries with regard to Japan, but at the moment the United States Government was not prepared to go further. This was partly because of the imminence of the election, partly because it was difficult even in Washington to get together two or three people who could speak for all the official American bodies which were handling, or developing some claim to handle, economic warfare questions. But the main reason seemed to be that no decision had yet been taken in the sphere of high policy to embark on any course which would increase the risk of war with Japan.¹ On 4th November the British *chargé* was told that Mr. Hull 'was firmly of the opinion that their main interest should be to avoid provoking the Japanese' and that no immediate decision should be taken. The Foreign Office had already agreed that the discussions must be postponed until the United States was ready, and that if necessary they should take place in Washington.

The British embassy was also told to use its discretion in pressing for extensions to the U.S. export licensing list. In the meantime the United Kingdom and the Colonial Empire would in general restrict exports to Japan to normal. 'The United States authorities must not however expect us to be too meticulous or to tighten up restrictions too severely until they can give fuller support to this policy.' By the end of October the governments of New Zealand and the Union of South Africa were fully prepared to cooperate; Australia and Canada had not yet replied, and were apparently awaiting the reactions of Washington. The effect of the virtual veto of the United States on comprehensive measures against Japanese imports was thus to slow

¹ This reading of United States policy is confirmed by Langer and Gleason, *op. cit.*, pp. 305-6; Feis, *op. cit.*, pp. 135-7.

down the whole programme, and although there was a gradual tightening up of United States export control during the following months it was not sufficient to overawe Japan by a display of unity among the white powers, or to prevent the building up of stocks for Japan's future aggression. The objections of the United States Government to further pressure were also seen in the veto on interception in the Caribbean which, throughout the winter of 1940-1, prevented the seizure of dangerous cargoes passing from Latin American countries to Japan.

In order to keep in step with the United States Government, whose embargo on exports of steel scrap was enforced from 16th October, the British Government asked the Dominions to impose a similar embargo on scrap exports, and the Governments of India and the Eastern colonies to refuse or to suspend the issues of licences. Exports of scrap from the British Empire to Japan were insignificant as compared with United States exports, for these were already subject to licence throughout the Empire and no licences were being given in the United Kingdom and Canada. The embargo would have to be defended on the ground that the material was needed as a supply reserve, for the Japanese were probably well aware that Canada and Australia did not need scrap for domestic consumption, and that no shipping was, for the time being, available to bring it to the United Kingdom. It would have been logical to impose restrictions on pig iron similar to those on scrap; exports from India to Japan were already limited for supply reasons to 10,000 tons a month, less than 40 per cent. of normal. If the United States, the only other substantial exporter of pig iron to Japan, had agreed to enforce a complete embargo it could have been justified in the Empire without difficulty on grounds similar to those proposed for the scrap embargo. The United States Government did not, however, feel able to place an embargo on pig iron exports at this stage. Another problem at this period was that of rice exports from Burma. Rice was clearly a weak point in Japanese economy, and it seemed important therefore that this commodity, and to a lesser extent beans, should be restricted to 'normal'. The Leith-Ross sub-committee agreed nevertheless on 29th October that as Burma's economy was so dependent on the disposal of the rice crop the Government of Burma could not be asked to forgo the valuable alternative market for the disposal of 300,000 to 500,000 tons of rice normally sold in Europe.

After the American elections the British embassy in Washington was again instructed (on 29th November 1940) to raise the question of the imposition of more drastic restrictions on Japanese economy; but the State Department was still unwilling to embark on anything but the most informal discussions, fearing apparently that anything of a more ostentatious character would reach Japanese ears and pro-

duce accusations of 'encirclement'. During December discussions continued between London and the embassy as to a satisfactory basis for cooperation between the two governments, and on 19th December the embassy explained the position to the three Dominion legations in Washington, asking them to consider a draft memorandum intended for joint submission to the United States Government. The embassy's proposed bases for a joint policy were:

- (1) Extension of the U.S. 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 1936-8;
- (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 50 per cent. of normal trade;
- (4) Further embargoes only to be imposed after prior consultation with the United States;
- (5) China and Manchuria to be included on a similar basis.

When Mr. Sumner Welles was told on 23rd December that the embassy expected soon to submit proposals on these lines, he was non-committal, and the Department's Far Eastern specialist, Mr. Stanley Hornbeck, did not show much enthusiasm in conversation with Mr. Nevile Butler. The British Government accepted the proposals in substance on 2nd January 1941, but after this there was no further progress until the middle of February. The immediate cause of this delay was the fact that the embassy's draft memorandum of 19th December had been referred by the Canadian legation to the Canadian Government, whose agreement was not given until mid-February. Apparently it shared the State Department's lack of enthusiasm for the more formal approach, and it is difficult to understand why the British embassy continued to put this method forward.

The ultra-cautious American reaction to the British proposals must, of course, be viewed against the background of the more positive tendencies of United States policy. At this point the launching of the lease-lend programme, extensions of the export-licensing list in December timed to coincide with the announcement of a loan to China, preoccupation with the struggle in the Atlantic, Anglo-American staff talks which had at least indicated an American preoccupation with the Pacific (although there had been nothing to indicate that the United States Navy would take anything more than defensive action there), and finally the need to explore the possibility of a bargain with Matsuoka's Japanese opponents, all served in their differing ways to persuade Mr. Hull that the launching of a programme of 'full-blown economic warfare' was still

inexpedient.¹ There was probably a suspicion, which the Americans were too polite to express bluntly, that the British proposals were a mere plot to drag the United States into the war.² This was not the British Government's intention, or at least it was not its desire that its economic proposals should involve it in a war in the Far East, although if war with Japan broke out it certainly desired American support. The British view was, however, that a comprehensive but undramatic policy of economic restriction, together with a clear indication that the United States would join in the defence of Singapore, would have a good chance of deterring Japan from further aggression; any course involved risks, but this perhaps less than the others.³

The American refusal of support was repeated in February, when a Japanese attack on British possessions seemed imminent. On the afternoon of 8th February Roosevelt told Halifax that he had had similar information to that reaching the Foreign Office; it suggested that the date for Japanese action would be 10th February. But, after 'anxiously considering' the eventualities, he could offer no help; 'while the United States Government would declare war on Japan if the latter were to attack American possessions, he did not think the country would approve this action if the Japanese only attacked the Netherlands East Indies or the British possessions. Moreover, even if the United States were to be involved in war with Japan, he felt that to fight an active war in the Pacific would mean a dangerous diversion of forces and material from the main theatre of operations which in his view was the Atlantic and Great Britain.' This was cold comfort. He had, he said, been thinking hard about deterrent naval action, but did not think that it would be possible to send a sufficiently large force to have much effect. 'He felt that he was "through with bluffing" and said that he had little doubt the Japanese knew the limitations of American action as well as he did himself.' These passages are from Lord Halifax's account of the interview. On the 10th Hull told him that he would leave the Japanese ambassador in no doubt that Japan was not going to have a monopoly of interest in the Far East. But in regard to oil he said that he was as anxious as the British were about a policy that by excessive severity would immediately drive the Japanese into the Netherlands East Indies. Halifax countered with the argument that it was a question of degree; before the point was reached where Japan would be stung into action

¹ Langer and Gleason, *op. cit.*, p. 306.

² This seems to be implied in some of the Langer-Gleason comments; *ibid.*, pp. 322-4, etc.

³ The Americans were studying every aspect of the strategical position in the Atlantic and Pacific, but were convinced that Singapore could not be defended. S. E. Morison, *History of United States Naval Operations in World War II* (London, 1948), iii, 50; J. R. M. Butler, *Grand Strategy, II*, 495-7.

there was a large margin within which it was most desirable to curtail her present supplies. A personal letter from the Prime Minister to Mr. Roosevelt, delivered on the 16th, spoke in blunt terms of 'the awful enfeeblement of our war effort that would result merely from sending out by Japan of her battle cruisers and her twelve eight-inch gun cruisers into the Eastern oceans. . . . Everything you can do to inspire the Japanese with fear of a double war may avert the danger. If however they come in against us and we are alone, the grave character of the consequences cannot easily be over-stated.'¹

Mr. Roosevelt's remarks leave no doubt that at the beginning of this crisis he shared the British view that a Japanese offensive was imminent, and that it might involve the Japanese seizure of bases in southern Indo-China and Siam, and an early attack on the Indies and perhaps Singapore. But he could see no line of action that was both effective and non-belligerent. The decisive action was taken in London on 7th February 1941. Mr. Eden gave a blunt warning to the Japanese ambassador that any attack on British possessions would be resisted with the utmost vigour. The British initiative and warnings caused heart-searchings in exalted circles in Washington, but the President and Mr. Hull soon convinced themselves that the immediate danger had passed and they were able to postpone the making up of their minds for some months.²

In these circumstances the British proposals for economic restriction made no headway. On 6th January 1941 Mr. Nevile Butler had raised the matter again with the State Department, in a conversation with Mr. Hornbeck which turned mainly on oil supplies. Mr. Hornbeck could promise nothing, but as usual seemed sensitive to the suggestion that the United States was less forthcoming than the British.³ In the meantime the Canadian Government was still considering the draft memorandum. On 20th February the Ministry pointed out to Lord Halifax that it had never been suggested in London that a formal approach by all the Empire Governments was necessary, and that the delay which had already taken place had enabled Japan to add to her stocks and to strengthen her position against an eventual blockade. The Ministry added that there were many commodities on which the United States Government had still not imposed restrictions. Other points in which the British

¹ W. S. Churchill, *The Grand Alliance* (London, 1950), pp. 157-8; *Joint Committee on the Investigation of the Pearl Harbor Attacks* . . . (Washington, 1946), pp. 3452-3.

² Langer and Gleason, *op. cit.*, p. 324; Feis, *op. cit.*, p. 154. On 20th February Mr. Churchill was able to tell the President that he too thought that there was 'better news about Japan'. Cf. Butler, *op. cit.*, pp. 497-500.

³ Feis, *op. cit.*, p. 138. He was in fact nearer to the British viewpoint than some other members of the State Department. He seems throughout the first half of 1941 to have been in favour of a more demonstrative policy by his government, including the strengthening of the Pacific fleet and its despatch to Manila, and economic restrictions, but he did not believe that it was safe to take economic measures alone.

Government was interested were tanker and bunker control, pre-emption in South America, the control of Philippine exports, and the limitations of exports from Japan. On 3rd March Lord Halifax left two memoranda with Mr. Hull, one dealing with the general policy of rationing Japan, the other referring more particularly to exports. Mr. Hull's reply at last seemed to show some interest in these plans; he agreed that it was necessary to find means of restricting Japan, and also Russia, to normal peacetime supplies, and it was arranged that the experts of the two countries should get to work without delay.

As yet there was nothing in the American attitude to justify boldness. In the meantime, however, British policy had done something to postpone a complete surrender to Japanese demands in Thailand, Indo-China, and the Netherlands East Indies, and before describing the later stages of Anglo-American cooperation we must examine briefly the course of the struggle in these three states.

(ii)

The Netherlands East Indies

The Dutch had indeed stood up well to Axis pressure. The suddenness and catastrophic dimensions of the German victory had produced among officials and public in the East Indies a rapid succession of moods—bewilderment, impotent rage, and then a grim determination to place the Indies on a war footing as soon as possible. The Germans, however, were still far away: what resistance would be offered to the more immediate threat from the Japanese? When at the end of May 1940 the Netherlands East Indies Government decided to exercise contraband control on exports by means of a system of sales registration instead of by export licences the Ministry felt some uneasiness as to whether this foreshadowed too yielding an attitude to the Japanese.¹ The Dutch officials soon showed that they had the necessary combination of stubbornness and tact to handle

¹ The Ministry sought during succeeding months to bring the Netherlands East Indies into the British scheme for the control of imports into Europe set up at the end of July 1940 by the institution of compulsory navicerts and rationing, and it hoped for an arrangement whereby all applications for exports of goods from N.E.I. would be referred to London before licences were granted. This pressure did not at first succeed. M. Peekema, the Netherlands liaison officer for economic warfare in London, told the Ministry on 27th August 1940 that in the view of the Governor-General of Batavia a licensing system for Europe was unnecessary, since the only movement of goods for European destinations was to Britain, and all Netherlands ships were chartered by the Ministry of Shipping. Discussions continued without substantial progress during the early winter of 1940-1. The Ministry recognized that the danger of serious leakages in Netherlands supplies to Europe was not great. The major problem was the export of dangerous products to Japan, and by that route to Germany. Export licensing came into full force in the Netherlands East Indies on 8th February 1941.

the still undecided Japanese to the best advantage; during the next twelve months their concessions were kept to the minimum necessary to prevent a violent reaction. During the thirties, imports into Japan from N.E.I. had steadily declined, while on the Japanese side there was resentment at Netherlands legislation designed to limit Japanese immigration and economic penetration. The first sign of a change of policy in Tokyo had been a note on 2nd February 1940 in which the Japanese Government had proposed reciprocal concessions; on 20th May a further Japanese note asked for the annual export to Japan of a long list of raw materials in quantities which often bore no relation to the existing production or scale of development in the N.E.I. These figures had probably been inserted to ensure in advance that in principle the Netherlands Government would not participate in the U.S. moral embargo, which had starved Japan of nickel and molybdenum, and to leave the door open for exploiting the increased immigration and business facilities which the Japanese desired in the Indies. The Netherlands Government, in a long and cautious reply on 6th June, promised to refrain from taking measures which might hamper the exportation of the thirteen mentioned products, while calling attention to certain problems in the case of individual commodities.¹

There seems to have been some uncertainty in Tokyo as to the next move. When the U.S. oil embargo led the Japanese to raise the figure of their annual oil requirements from the Netherlands Indies to 2,000,000 tons they were referred to the oil-producing companies, on the ground that the governmental authority in this field did not include control of sales, except in connexion with the exigencies of war. On 16th July the sending of a delegation to Batavia for economic negotiations was announced; but the Netherlands Government refused to receive the chief delegate, General Koiso, without a public retraction of some remarkably offensive comments that he had made on the Netherlands régime. He was replaced on 27th August by Mr. I. Kobayashi, Minister of Commerce and Industry in the Konoye cabinet, and a strong pro-Nazi. The Japanese delegation, with a formidable staff of twenty-four assistants, set sail from Kobe on 31st August.

The Government of the Netherlands East Indies was in negotiation with two successive Japanese delegations on export questions from September 1940 until June 1941.² While the British were not directly involved in these discussions they were vitally interested in

¹ There is a short but authoritative account of Dutch policy in *The Netherlands Indies and Japan* (London, 1944) by Dr. H. J. Van Mook, former Director of Economic Policy in the N.E.I. This gives the text of the principal documents exchanged between the Dutch and Japanese delegations during the negotiations in Batavia in 1940 and 1941. See pp. 26-36.

² The Kobayashi mission, 16th September-18th October 1940; the Yoshizawa mission, 28th December 1940, continuing, with interruptions, to 10th June 1941.

the results, and kept the Netherlands Government in London fully informed as to their views. In general the Netherlands ministers in London and Batavia accepted readily enough the broad lines of British economic-warfare policy and, like the British, acted on the assumption that until the United States Government was prepared to take the risk of war it was not expedient to reduce supplies to Japan to a point which would provoke Japanese attack or reprisals. The Japanese for their part were undecided as to how far they should go in threatening war, and how they could best take advantage of the conciliatory inclinations of the Dutch: the resulting hesitations and delays suited very well the Fabian tactics of the N.E.I. authorities. There seemed no doubt that the real purpose of the Kobayashi mission was to bring the N.E.I. into a state of political dependence on Japan, an assumption which was strengthened by the fact that in the opening discussions they had few precise and practical proposals to offer. The Governor-General, however, evaded political discussions, and after some preliminary conversations with Mr. Kobayashi, left the economic discussions in the hands of Dr. H. J. van Mook, the Director of Economic Affairs, who was appointed Minister Plenipotentiary to meet Tokyo's objection that his rank was too low for discussions with a Japanese cabinet minister. There was some tension over these questions immediately after Mr. Kobayashi's arrival.

Oil was the most important commodity involved in the discussions, and the only one on which agreement was reached during the Kobayashi mission. The discussions in Washington on the oil question between July and October 1940 have already been described.¹ Estimates as to the Japanese position were necessarily very approximate owing to the lack of information as to Japanese service requirements. In October, however, the Ministry, basing its views on figures supplied by the United States Navy Department in conjunction with the British and American oil companies, concluded that Japanese stocks and synthetic production would probably be sufficient to allow the Japanese to carry on war against Britain, the United States, and the Netherlands for about nine months without fresh imports.² If Japan succeeded in occupying the British and Netherlands East Indies she would be able to export crude oil from this area to her refineries; it was assumed that in such an event the Dutch would have destroyed their own refineries. Estimates on these lines however merely demonstrated the vulnerability of the Netherlands East Indies: a stoppage of supplies from all the major oil-producing areas so drastic as to cripple the Japanese war effort would force the

¹ E.B., i, chap. XIV(ii).

² Stocks at the end of 1939 were estimated at 5,250,000 tons. Civilian consumption could probably not be reduced below 2,500,000 tons; total service requirements might not be less than 4,750,000 tons.

Japanese, unless they were deterred by fear of American action, to use existing stocks for a rapid campaign to seize the N.E.I.

Negotiations had been proceeding between the Japanese and the two principal companies, Standard Vacuum and Royal Dutch-Shell, for some months and at the end of August a party of Japanese business men, headed by Mr. T. Mukai, chairman of the board of directors of the Mitsui organization, arrived in Java to continue the oil negotiations there. Baron van Eck represented the Royal Dutch-Shell, and Mr. Fred. H. Kay the Standard Vacuum. The State Department had shown that it did not approve of the American company being involved in these contracts, but it had also made it clear that it would take no action in the matter. The first Japanese demand, made about a week after the opening meeting, was that the annual sales of oil should be increased from the existing rate of about 600,000 tons a year to about 3,750,000 tons. At the beginning of October the main lines of the proposals which were being made by the companies' representatives in Batavia were discussed by Sir A. Agnew and the State Department in Washington. These figures provided for a total of 2,000,500 tons a year of which 480,000 tons had already been offered on a six-monthly basis. Standard Vacuum's share of the total would be 552,000 tons against 1,448,500 tons by Shell.¹ On 24th September Mr. Mukai asked for full particulars of N.E.I. oil production, and for permission for Japanese experts to study the oil-producing districts and refineries. On 7th October the Netherlands delegation sent full particulars from published sources of the oil production, but said the Netherlands Government had no power to grant the right to third parties to visit the properties of the companies concerned. This statement was followed on the 8th by a letter from the chairman of the Netherlands delegation giving the oil companies' final offer, which the Japanese accepted on 18th October.² The position may be summarized as follows:

Japanese-Netherlands Oil Contracts

(in 1000 metric tons)

	<i>Japanese demands</i>	<i>Netherlands offers</i>
Aviation crude	1100	120
Crude for lubricants	100	100
Other crude	1050	540
Aviation gasoline (over 87 octane)	400	33
Diesel oil	500	133
Other products (including only 50,000 tons straight run gasoline, suitable for the fabrication of gasoline below 87 oct.)	—	430
TOTAL	3150	1356
Usual annual supply of oil products	600	600
GRAND TOTAL	3750	1956

¹ *Ibid.*, pp. 483-4.

² The oil agreement was signed on 13th November 1940 on substantially the lines of the companies' offer.

A plaintive Japanese note of 21st October pointed out the wide differences in quantity between Mr. Mukai's original demands and the companies' offer, and remarked that the 'proposed quantity of supply of aviation gasoline and aviation crude to Japan to which Japan attaches a great importance, is as good as nil'. The note was in effect a farewell communication, for Mr. Kobayashi had on 20th October suddenly announced his recall. He had failed to achieve the broader aims of his mission: the oil contract gave an opportunity 'to call it a day'.¹ Mr. Mukai, a mild business man who apparently had little liking for the forceful rôle he was expected to play, left in November after presenting two impudent notes demanding that large oil-bearing areas should be regarded as a Japanese sphere of influence, and that Japanese capital should be allowed to participate in the N. V. Nederlandsche Indische Aardolie Maatschappij.

This first, and by no means unsuccessful, brush with the Japanese was followed by Dutch proposals for more comprehensive Allied restrictions on exports to dangerous or potentially dangerous destinations in the Far East (i.e. Japan and Russia). On 31st October 1940 the Governor-General, in a telegram to the Netherlands Government in London, gave details of the demands which, according to a reliable source, had been made by Japan for supplies from Indo-China for the period from November 1940 to January 1941 and said that if this programme were carried out it would be necessary to 'fix the standpoint' with regard to exports particularly of tin and rubber from the Straits Settlements and N.E.I., as there would now be important quantities available in Japan for export to Germany. The proposal was naturally welcomed by the Ministry and the Far Eastern Committee, and the general lines of policy to be followed were defined at two meetings between English and Dutch representatives, the first on 27th November 1940 and the second on 14th January 1941. By February 1941 there was substantial agreement as to the quotas which should be applied by the Dutch in their renewed negotiations with Japan. The British aim in these discussions was to secure the cooperation of N.E.I. in the Butler Committee's comprehensive policy of restricting Japanese imports while avoiding provocative action. The Netherlands representative in reply revealed justifiable uneasiness at the ill-defined attitude of the British and United States Governments towards the N.E.I. The fact that the War Cabinet felt unable at this stage to guarantee assistance to the N.E.I. in the event of a Japanese attack also pointed to the need for redoubled caution in dealing with Japanese economic demands.

¹ Van Mook, *op. cit.*, chap. iv, gives his account of the Kobayashi mission. Cf. pp. 64-5.

The defence talks which were going on at this time are outside the scope of this study, but it may be noted that the matter had been under discussion by the two governments for some weeks in connexion with the Singapore conference on defence questions, in which both the United States and Netherlands Governments had shown the greatest reluctance to take part. The United States Government decided not to be represented at the conference, although at the end of October an American naval representative arrived in Singapore to take part unobtrusively in an exchange of information. The Dutch had been invited to exchange information on defence matters in Singapore and in London, but had replied that no suitable officer was available in London and it was not thought desirable that a Dutch officer should visit Singapore. The Governor-General was also reported to have raised difficulties over the suggested despatch of a British officer to Batavia. The British Government was reluctant to give a formal guarantee on the ground that with its limited powers of assistance it could not afford to arouse excessive hopes. The two governments were in agreement as to the necessity for a quota policy towards Japan which would prevent assistance to Germany, but the Dutch did not feel able in the circumstances to go as far as the British desired in denying supplies to Japan that might be used for her own warlike purposes.¹

They recognized, however, from the start the need for concerted action with regard to rubber and tin. The global M.E.W. quotas for these two commodities for Japan were 42,000 tons and 9,000 tons a year respectively. According to figures prepared by the Ministry early in November 1940 it appeared that if exports at the existing rate continued from the Straits Settlement, N.E.I., and Thailand, Japan would have received by the end of 1940 a total of 58,500 tons of rubber (53,000 from the Straits, Borneo, and N.E.I.), and 13,000 to 14,000 tons of tin (13,000 from the Straits and N.E.I.). The basis of the discussions between the experts of the two governments was considerably broadened in the course of meetings in December and January and it was finally agreed that quotas for the export of all important commodities from the Allied empires to Japan should be drawn up. The Netherlands representatives announced the forthcoming introduction of export licensing. Agreement was reached on 25th February between the Ministry and the Netherlands officials with regard to most of the commodities on the list. The Governor-General had also drawn up a list of provisional quotas, presumably for guidance when export licensing control was imposed in the Netherlands East Indies on 8th February. There were thus three lists under examination during February, and agreement

¹ Cf. Morison, *op. cit.*, i, 38-45; ii, 48-51; Butler, *op. cit.*, pp. 490-3.

could not at once be reached on all items. Throughout these discussions special attention had been given to tin and rubber, and the Ministry hoped that the figures would be adjusted by the Netherlands Government in due course, in accordance with Japanese policy in Thailand and Indo-China. The following table shows the three lists.

Proposed Annual Quotas for Exports to Japan from N.E.I.
(in tons)

	<i>M.E.W. Quotas</i> (13.2.41)	<i>Quotas agreed in London</i> (25.2.41)	<i>N.E.I. G.-G.'s</i> <i>recommendations</i> (8.2.41)
Tin	1,000/1,500 Maximum 3,000	3,000 pending events in Thailand	3,000
Rubber	20,000	1,650 a month, dropping to 1,000 in March & 500 in April (4.4.41)	20,000
Nickel ore	Nil	150,000; to be reduced if possible	150,000
Copra		12,000	12,000
Palm oil	1,000	960	960
Palm kernels	Nil	480	480
Castor seed	4,000	6,000 in theory, 4,000 in practice	6,000
Pepper	800 yen block; Nil Japan	No agreement	300
Tobacco		480	480
Tea		192	192
Ilmenite	480	480	480
Sisal	800	800	800
Kapok fibre	900	900	900
Kapok seed	1,300	1,300	1,300
Cotton seed	1,400	1,400	1,400
Gum damar			500
Gum copal			750
Gum rattan			2,000
Bauxite	100,000		360,000
Manganese	Nil		6,000

It was ascertained early in March that the Netherlands figures related to the yen block, and not only to Japan.¹

The measure of agreement on quotas was timely in view of the renewed Dutch-Japanese negotiations in Batavia. Dr. van Mook summed up the general character of these discussions later with the remark that 'the atmosphere around the Yoshizawa mission might be less explosive than that in which the Kobayashi mission had arrived, but there was a growing tenseness'. A former Minister of Foreign Affairs, Mr. Yoshizawa, and Mr. Ishizawa, the Japanese consul-general, substituted 'studied urbanity and sometimes even

¹ The Ministry considered the Netherlands quotas for nickel ore and bauxite 'regrettable'; the pepper quota acceptable only if intended for both Japan and the yen block. It recommended strongly that the total exports of manganese for 1941 should not exceed 4,000 tons; it preferred a nil allocation for both manganese and scrap iron, in view of the fact that the United States embargo on the export of iron and steel was forcing Japan to produce more steel from pig iron for which manganese was essential.

wit' for the 'aggressive and undiscerning stolidity' of their predecessors, but as the months went by the hope of maintaining the peace evaporated as Japan slowly built up her base of attack.¹ Nevertheless, the Japanese were apparently not ready for an early breach, and the N.E.I. Government was prepared to make concessions from time to time to keep the negotiations in being. On 16th January the Japanese had presented a memorandum demanding far-reaching rights of penetration into all branches of N.E.I. economy; a Netherlands memorandum of 3rd February had virtually rejected these demands, although in a sufficiently argumentative form to avoid a direct negative, and in the discussions in Batavia the Japanese showed surprisingly little energy in pressing their claims. Those for vast prospecting and exploitation rights for oil, for practically unlimited immigration into the Outer Possessions, and for extensive fishing rights and shipping facilities were either refused outright by the Dutch or reduced to very small proportions. Dr. van Mook told the British consul-general on 8th March that the Japanese now seemed 'indifferent to the success of their own proposals' although they still appeared to be in a hurry; they seemed to be poorly equipped with reliable data even about their own requirements. All this naturally strengthened the suspicion that the discussions were only a pretext for maintaining Mr. Yoshizawa in Batavia with full diplomatic status pending a big explosion in the Far East. He had little to do, for the detailed discussions were conducted by Mr. Ishizawa.

After the Japanese memorandum had been more or less disposed of, the discussions dealt mainly with the export quotas. The Ministry remained closely in contact with the Netherlands Colonial Office, and did its best to secure quota figures in harmony with its suggestions of 13th February; the British consul-general, in a despatch of 18th March, spoke warmly of the conduct of Dr. van Mook, 'who is, I am persuaded, genuinely desirous of making every sacrifice with the object of defeating the common enemy'. Unfortunately, 'high policy and orders from his superiors appear often to obstruct his enterprise', and the consul-general had to add that the conduct of the great business houses was also causing some difficulty. When it came to the point, however, the Netherlands Government was prepared to be firm enough in its refusal of Japanese demands, and the difference between Dutch and British policy was mainly one of method. By the spring of 1941 the British policy was becoming one of 'precautionary sanction': the problem was not only that of preventing Japan from accumulating stocks, but of forcing her by further reductions of imports to consume her reserves. The Dutch were anxious to prevent a complete deadlock or Japanese complaints of

¹ Van Mook, *op. cit.*, pp. 66-7, 77. Chapter v gives an account of the Yoshizawa mission.

encirclement; but the difference as it expressed itself in the final quota proposals was not great.

The Japanese asked in March for increased imports of rubber and tin, and of copra (70,000 tons), castor seeds (10,000 tons), and palm oil (30,000 tons). The Netherlands authorities had expected a demand for an increased oil quota, and were agreeably surprised to find that they were asked only for the renewal of the existing agreement for another six months. The original contracts for the supply of oil at the rate of about 1,800,000 tons a year was divisible into three portions, namely (1) f.o.b. contracts for 6 months (322,500 tons); (2) f.o.b. contracts for twelve months (660,000 tons); (3) Shell and Standard Vacuum Companies' own quotas (494,000 tons). Only the first of these categories was involved at this stage, but the Japanese, while suggesting their extension on the same basis as before, wished to add any quantities under the original contracts which had not been lifted by 30th April. These under-deliveries were considerable. The general feeling in London was that it would be best to agree to a renewal of the contracts while refusing to concede the carry forward, but in any case to support whatever was the State Department's decision. As the latter was not opposed to renewal by Standard Vacuum on the existing terms, the British Government gave similar advice to Shell. After this the companies proceeded to sign the renewal, with an understanding that the arrears could be lifted as far as circumstances permitted. The presence in Batavia of the Ministers of Foreign Affairs and the Colonies (Dr. van Kleffens and Dr. Welter) greatly facilitated the working-out of the final proposals, although the conduct of the discussions remained in the hands of Dr. van Mook, who told the British consul-general on 29th April that the Netherlands delegation had made certain final proposals and had asked for a reply in a few days.

By this stage the Ministry was anxious to secure if possible the complete stoppage of rubber and tin exports from Allied sources to Japan; a minute to Mr. Dalton from Mr. Churchill emphasized the importance of the rubber question as a matter of high policy. 45,000 tons a year from all sources was considered to be the maximum that could be allowed to Japan with safety. The Straits Settlements had reduced rubber exports to Japan to 500 tons in March and April, and after interdepartmental discussions the Butler Committee decided on 1st May that no more rubber and tin should be licensed to Japan from Malaya during the current year. This course was urged on the Dutch. On 14th May the Japanese delegation presented its revised proposals; they repeated substantially the sweeping demands made on 16th January, but it seemed to Dr. van Mook that Yoshizawa had been instructed to close the talks and to take whatever was offered. A few minor concessions were made. But the Japanese

proposals with regard to increased facilities for immigration, exploration (mineral or agricultural) rights, large-scale deep-sea fishing, air communications, shipping facilities and the opening of certain ports, the establishment of cable communication between Japan and N.E.I., and the modification of the N.E.I. system of import quotas, were all rejected. Only one Japanese request for an additional oil concession had been granted (against the wishes of the Dutch general staff). The Japanese request for the fixing of import quotas for long periods and for an increase in the quota allotted to Japanese importers was also turned down. The real fight was over the export quotas, and particularly tin and rubber. The Netherlands Government was anxious to get the Japanese delegation out of the Indies with sufficient concessions to avoid a complete breach; however, on 24th May it agreed 'in principle' to the stoppage of rubber exports. The remaining figures were regarded by M.E.W. as undesirably high in the case of copra, palm oil, manganese, and bauxite. Most of the palm oil exports from N.E.I. were known to be going to Germany. The Ministry continued to urge that the proposed increases on the February figures should not be maintained.

The course of the negotiations was highly displeasing to the Japanese Government, whose continued uncertainty was reflected in Matsuoka's conduct; on 22nd May he asked Craigie for the good offices of the British Government in the negotiations, and spoke violently about the Dutch proposals, but he showed no intention at this stage of rejecting them. Craigie was, rather surprisingly, inclined to accept Matsuoka's assurances that Japan's need for rubber was so great as to prevent re-exportation. The request for British mediation led to considerable discussion in London; the Netherlands Government seemed for a moment to favour it, on the ground that an Anglo-Dutch-Japanese conversation would enable the Governor-General to bring the negotiations in Batavia to an end while avoiding an answer about tin and rubber. The Foreign Office however disliked the plan, arguing from unpleasant experience that negotiations with the Japanese on a sore point, so far from attenuating a crisis, usually precipitated one; the Japanese could be relied on to misrepresent the position, and to arouse the old suspicions about Great Britain's attitude both in China and in the United States. Craigie was instructed on 3rd June to advise Matsuoka to address his representations to the Netherlands Government alone. Depressing news about Thailand's rubber commitments led the Ministry to urge once again the complete stoppage of rubber exports to Japan; the final Netherlands' proposals, including an allocation of 5,000 tons of rubber for the second half of 1941, were, however, presented to the Japanese in a note on 6th June. The more important items were the following:

Final Annual Quotas for N.E.I. Exports to Japan

		(in tons)
Tin	3,000	(Japanese demands reduced from 12,500 to 3,000)
Rubber	15,000	(10,000 already shipped; Japanese demand originally 30,000, later 20,000)
Nickel ore	150,000	
Copra	16,000	(Japanese demands 70,000 later 12,000)
Palm oil	650	(Japanese demands 50,000; 30,000; 12,000)
Castor seed	6,000	(production would not reach this figure)
Kapok fibre	1,050	
Kapok seed, cotton seed	4,350	
Gum damar, gum copal	1,375	
Gum rattan	1,600	
Bauxite	200,000	(Japanese demand 400,000)
Manganese	3,000	(Japanese demand 27,000)

The Dutch had probably done all that could be expected of them. They had received no specific guarantee of support from anyone, and the British had no desire that they should deliberately provoke Japan. So there were concessions to Japan over two important commodities, rubber and tin; the figures for nickel ore were high, but were not of such immediate importance. The copra figures were not considered to be high in view of the huge surplus in the Netherlands East Indies and the current exports from Manila. Moreover, in an accompanying statement the Dutch refused to enter into any commitments beyond the end of the year, and reserved the right to terminate any arrangement 'whenever in the judgment of the Netherlands Government full execution would be of direct or indirect advantage to the enemy or harmful to the interests of the Kingdom or its allies'.

The Dutch note led to a further violent outburst in the Japanese press. On 17th June Yoshizawa announced his government's decision to break off the negotiations; but studied urbanity (on both sides) was still the rule, and it was agreed that the Netherlands Government should carry out the assurances with regard to exports contained in its final list, subject to the general qualifications which it had made.

(iii)

French Indo-China and Thailand

The British Government also sought to stimulate whatever sparks of resistance to Japanese control there might be in Indo-China. It was assumed in the summer of 1940 that Japan's immediate purpose would be to establish military and air bases in northern Indo-China in order to attack the Chungking forces; this would also place

her in a position to attack Thailand, Malaya, and the British position. Economically the colony, which had lost many of its markets in the French collapse, might not be averse to supplying Japan; the chief product was rice, but there was an increasing output of rubber, and zinc and tin were mined. But this might not be of any benefit to Germany; indeed, the occupation of the whole or part of the colony, by cutting off wolfram and other supplies from unoccupied China, would effectively close one source of supply to Germany through Vladivostok. On 20th July 1940 General Catroux handed over his office to Admiral Decoux, the Vichy nominee; from Vichy on 5th August far-reaching Japanese demands were reported, and on 22nd September an agreement with Japan. The Japanese Government undertook to respect the territorial integrity of French Indo-China and the sovereign rights of France there, and France consented to grant special facilities in Indo-China for the Japanese army and navy to pursue their operations. Japanese forces duly occupied parts of northern Indo-China at the end of September, after some fighting with local French forces.

The policy of keeping resistance alive meant that the restriction of exports to Japan under the rationing schedules did not apply to Indo-China.¹ The most striking example was that of jute and jute manufactures from India, which were restricted to 50 per cent. of normal trade in the case of Japan, and were left on a basis of full normal trade for Indo-China. Similarly the navicert area was not extended to cover Indo-China. On 3rd September 1940 the Governor-General confirmed a decision that no British or allied ships would be detained in Indo-China ports, and a corresponding assurance was given by the British authorities that normal trade would be resumed on the China Station. It appeared during October that the Governor-General, on instructions from Vichy, was after all seeking to obstruct British interests in the Far East, and this gave the British Government grounds for putting economic pressure on Indo-China, if it so desired. It did decide, as from 15th November, that all exports from the United Kingdom to Indo-China should be prohibited except under licence, and a similar course was recommended to the Governments of India and Burma and the Dominions. But as there were no important exports to Indo-China apart from gunny-bags it was assumed that an embargo on these would effectively restrict Japanese imports of rice. There had still been no decision to stop neutral trade with Indo-China. A thorough-going blockade was in fact discussed during November, and rejected by the Butler Committee as a matter of policy. A necessary preliminary would have been to declare Indo-China enemy-controlled territory, but actual

¹ Admiral Decoux, *A la Barre de l'Indochine* (Paris, 1949), pp. 418-20, shows that he was aware of the disastrous consequences of a blockade.

evidence of the use of Indo-China for the benefit of the enemy might be hard to produce. An attempt to enforce it against neutral countries—and particularly against Japan—would, as an official minute remarked, ‘be impracticable until we are ready to face a first-class row with the Japanese, and even then we could probably find better grounds for a row’. A rather less drastic course would have been to include Indo-China in the navicert area, but there was considerable doubt as to whether un-navicerted goods could be seized unless there was presumption or evidence of enemy destination. A similar problem arose in connexion with the Banque de l’Indo-Chine, which by reason of its being controlled both in law and in fact from Metropolitan France, was already ‘enemy’ within the terms of the Trading with the Enemy Act and of corresponding legislation in the Dominions and Colonies. But the bank was a semi-state one and the place occupied by it and its subsidiaries in the economic life of Indo-China was so extensive that to specify it would be tantamount to treating the whole colony as an enemy. The Leith-Ross sub-committee decided on 19th November that it was undesirable to put the bank on the Statutory List, but desirable to exercise more strict control, so that it should not operate as a source of profit and of dollar transfers for Metropolitan France.

It soon appeared that even the stoppage of exports from the Empire to Indo-China on 15th November had been based on an over-pessimistic view of the situation. Perhaps the possibility of British reprisals and some temporary relaxation of Japanese pressure may have persuaded Admiral Decoux to be a little more forthcoming.¹ He had a further crisis on his hands in the shape of Thai claims to Indo-Chinese territory on the Mekong river, whence there had been reports of fighting before the end of November. By mid-December 1940 the British Government had decided that there was a possibility of a *modus vivendi* with Decoux which would allow a little trade, including exports from Indo-China to Hong Kong and Singapore, to continue. There was no intention to allow British exports to Indo-China of anything but innocuous commodities—that is, commodities such as gunny-bags which were Japanese deficiencies could be supplied only to the extent required for trade with British colonies. Guarantees would be required that no financial benefit would accrue to the enemy. Admiral Decoux took the initiative by proposing that M. Gannay, Inspector-General of the Banque de l’Indo-Chine, should go unofficially to Hong Kong in an attempt to settle all outstanding economic questions between Indo-China and the Empire; a fortnight later, on 24th December, Sir Geoffrey Layton (Commander in Chief, China), telegraphed that Admiral Decoux now pro-

¹ In his memoirs Decoux claims that he was anxious throughout to satisfy the British requirements (*ibid.*, p. 420).

posed to send Captain Jouan, his Naval Chief of Staff, to Singapore to discuss the position of French Indo-China trade directly with the Governor and himself. The sailors got to work with commendable promptitude and the text of an elaborate agreement in twenty-six articles was telegraphed to London on 18th January 1941.

The earlier clauses provided that British and French warships should continue to refrain from hostilities within the limits of the China station, and that French merchant ships should not be intercepted in that area except for the purpose of flag verification; outside this area the British Government would retain full freedom of action. It was also provided that French vessels suitable for conversion to armed merchant cruisers, and any other ships possessing a speed of 14 knots or more, should not proceed to any port north of Shanghai without British consent (clauses 4 and 5). Further clauses provided for the prevention on both sides of propaganda. The following clauses referred more specifically to economic-warfare problems.

9. Except where otherwise provided, or by mutual agreement at a later date, exports to Indo-China from British territories will be permitted up to average for the years 1936, 1937, and 1938, on the same conditions as those now obtaining for similar exports to Japan.
10. No official restriction will be placed on exports from Indo-China to British or allied territories, whether for consumption in those territories or for transshipment, except for short periods for special articles and then only by mutual agreement.
11. Manufactured jute goods, whether new or second hand, shall only be exported to Indo-China from British territories in quantities sufficient for export of rice from Indo-China to British or allied territories. The quantities so required shall be fixed in agreement between Government of Indo-China and Colonial Governments of Straits Settlement and Kong Kong.
12. No imports from British or allied territories shall be re-exported from Indo-China in any form except with approval of British Consul General at Haiphong.
13. While not expressly binding Government of Indo-China to any particular limitation British Government express wish, which is noted by Government of Indo-China, that exports from Indo-China to Japan, particularly of rubber, tin, rice, and wolfram, shall not be subject to such large increases as would render Indo-China a new and vital source of supply to Japan for these commodities, or militate against supply of these commodities to British territories.
14. Foreign exchange resulting from these exports to British and allied territories will be paid into accounts at any British bank or at Bank of Indo-China in London (or in Hong Kong and Singapore subject to confirmation by Colonial Governments of these

places) and will only be drawn on for imports into Indo-China from sterling areas.

15. All facilities, including bunker and water, shall be given French merchant vessels at British ports in Malaya and Hong Kong and to such British and allied merchant vessels as visit ports in Indo-China, without discrimination.

The remaining clauses defined the terms on which the resumption of trading by French, British, and Allied merchant ships between British and Indo-Chinese ports should take place. Clause 20 provided that French ships trading to British ports which might require facilities under clause 15 should be brought into the ship warrant scheme and give the customary undertaking. It was agreed that for the present British vessels would not be sent to Haiphong, in view of the presence of the Japanese. The Ministry of Shipping did not in fact intend that British ships should visit Indo-Chinese ports at this period.

The agreement seemed to provide for practically all the British requirements. Clause 13 became of great importance during the next few months, as the basis for British policy in attempting to restrict supplies from Indo-China to Japan. Clause 5 met to a large extent the British desire to prevent additions to the French tonnage in the area, although there was nothing to prevent smaller French ships from going to Japanese ports. This did not, however, seem sufficient to justify the repudiation of the agreement. There was also nothing in the agreement to prevent French ships from sailing out of the area to Madagascar and Metropolitan France, a point to which the British Government attached great importance. At this time attempts were being made to blockade Madagascar, and the only real chance of intercepting the trade between the islands and Indo-China seemed to be in Far Eastern waters. One such ship was known to have arrived in France, and eight others were either en route or about to sail. But there seemed no hope of persuading the Government of Indo-China to agree to refuse clearances in such cases, and it seemed best to rely on the British navy to intercept the ships. To make the British position clear, clause 2 was slightly amended. French hopes were revealed at the end of March, when M. Gannay visited Hong Kong and drew up, in negotiations with the Hong Kong authorities, a financial agreement of 15 points implementing the provisions of clause 14. The authorities in Hong Kong, who reserved the position of the British Government, sent the draft to London with the observation that the agreement was badly needed in Indo-China, and that stricter terms could probably be secured: the more liberal terms were recommended as 'tending to lead to genuine cooperation'.

In the meantime efforts to secure effective American action in the Thailand-Indo-China dispute proved fruitless. The United States

Government took the 'somewhat doctrinaire' view that the Thai claims for territorial revision should be put forward only at the 'appropriate time', and that concessions to the Thais at this stage would in effect be concessions to blackmail. But it was not prepared to offer its good offices as a mediator in the dispute. The State Department was anxious that the hundred French aircraft at Martinique should be allowed to be transferred to Indo-China to stiffen resistance to Japan, and had secured the reluctant agreement of the Vichy Government to this course; the Butler Committee decided on 16th January that although the aircraft were reported to be un-serviceable the balance of advantage lay in permitting their shipment. But it still seemed to the British that the only effective course for the United States to take would be some decisive gesture such as the sending of substantial reinforcements to Manila. It also appeared that although certain measures of economic pressure on Thailand could be applied with great effect the result would only be to make her more dependent than ever upon Japan. She could evade restriction of her rubber and tin exports by exporting them to Japan, but this was not in the Allied interest: indeed, Japan was already doing her best to get them. Pressure would be more effective if oil supplies could be withheld.

So it seemed better to press the United States to act, and on 14th January 1941 two very plainly worded telegrams were sent to the British *chargé* at Washington with regard to American policy. The first pointed out that the attitude of firmness adopted by the United States Government in the autumn of 1940 towards Japan had proved to be 'most salutary', and had 'gained us a valuable breathing space', whereas there seemed more recently to have been some disposition to relax this attitude and to 'accept the inevitability of the march of events'. In the second the *chargé* was instructed to take up the question with Mr. Hull on the broadest lines in an endeavour to induce the United States Government to reconsider its attitude. He was to suggest that if it was not felt possible to press the French Government to make the concessions necessary to effect a settlement in its dispute with Thailand some public statement referring to the well-known views of the United States regarding the settlement of disputes by negotiation would carry great weight. Mr. Hull was not prepared to accept this suggestion, although shortly afterwards he saw the Thai minister and departed from the 'doctrinaire attitude' of the State Department to the extent of giving some general expressions of friendship for the Thais. On 31st January an armistice in the dispute with Indo-China was signed on board a Japanese battleship off Saigon. For some weeks after this, as we have seen, it appeared to the British Foreign Office that a crisis in Anglo-Japanese relations was imminent, and that Japan might at any

moment follow up her success by extending full control over southern Indo-China and by entering the war on the side of the Axis.

In these unpropitious circumstances a French economic mission had been negotiating with the Japanese Government in Tokyo, and in spite of some resistance to the more extreme Japanese demands, came to a provisional agreement by the end of January which gave the Japanese a large measure of control over Indo-Chinese trade. Indo-China was to deliver to Japan 500,000 tons of number one and 200,000 tons of number two rice; 200,000 tons of white rice were reserved for France, and 120,000 for the French concession in Shanghai. This agreement led the Butler Committee to hesitate about concluding the *modus vivendi* with Indo-China, for one of its main purposes had been to assure supplies of rice to the British colonies. But it appeared that the annual average export of surplus rice from Indo-China was about $1\frac{1}{2}$ million tons, so that all would not go to Japan; moreover the Franco-Japanese negotiations were by no means complete. The committee decided therefore on 20th February that it would on balance be better to bring the *modus vivendi* into force, as the threat of denouncing it would be a means, and indeed the only means, of preventing the monopolization of Indo-Chinese trade by Japan.

Thus it could still be said that French Indo-China and Thailand had not finally surrendered to Japanese economic pressure, and during March it appeared that the Japanese Government had decided to postpone further efforts at penetration. There was some relaxation of pressure by the Japanese delegation in the N.E.I. and in the meantime Mr. Matsuoka had departed on his visit to Berlin.

But as the blockade story in Europe was to show so often, the ominous forbearance of a predatory neighbour leaves the small neutral eager to buy goodwill; tin during the next three months supplied the most noticeable example of Thailand's desire to please. The Japanese, undecided about war, were busy enough with their economic demands. Evidence soon began to accumulate that the Thais were putting pressure on the British mining companies to sell their products in Bangkok rather than to Malayan smelters. On 8th January Mr. Butler warned the Thai minister in London that the British Government did not wish to see the time-honoured trade in tin and rubber between Thailand and Malaya upset. Sir Josiah Crosby, the British minister in Bangkok, added further requests and hinted warnings, all to little effect. Yet it could still not be assumed that Thailand had thrown herself irrevocably into the arms of Japan. On 13th February Crosby reported to London a long secret message sent to him by the Thai Prime Minister through the deputy Minister of Foreign Affairs, stating that Thailand would remain neutral; her policy was to be the friend of both Britain and Japan, but she would definitely

not take the side of the latter. There were increasingly desperate pleas from the Thai Government for oil, for by now it was known that the United States authorities had found means of cutting off supplies. The Far Eastern Committee finally decided on 20th March that the weight of argument was in favour of attempting to obtain the support of the U.S. Government for a policy of assistance to Thailand in the hope of staving off her final inclusion in the Japanese orbit, and specific proposals were accordingly sent to Lord Halifax on 28th March: these argued that a military and naval demonstration would be impracticable, and the weapon of economic pressure double-edged. Mr. Hull told Lord Halifax on 8th April that he had made up his mind some time ago that Thailand had passed completely under the domination of Japan; he gave the impression that he was 'inclined to feel the Thais were past praying for'. He promised to consider the British proposals carefully. They were still being considered at the end of April, by which time the oil shortage in Thailand had reached a crisis, and the Thai Government had been obliged to have recourse to Japan for 5,000 tons to meet immediate needs. Crosby was so insistent on the need for some oil imports that the Far Eastern Committee agreed to authorize him to make a comprehensive approach to the Thai Prime Minister, offering help in return for definite assurances as to the supply of tin and rubber to British territories and the denial of any preferential position to Japan. Negotiations were accordingly set on foot which after much difficulty produced in July what would in other circumstances have been a fairly satisfactory arrangement.

The *modus vivendi* with Indo-China, or the Decoux agreement, as it was usually called, remained in force from March to June, although with dwindling hopes of restricting supplies to Japan on the lines indicated in clause 13. The Ministry's main attack was against the Japanese rubber supplies. We have seen that this played an important part in the negotiations in Batavia.¹ As 45,000 tons a year was considered to be the maximum that could be allowed to Japan with safety the Indo-Chinese production of about 65,000 tons meant that even a nil allocation from the N.E.I. and Malaya would not solve the problem, particularly as supplies were also reaching Japan from Thailand and Brazil. It was, in short, imperative to divert as much Indo-Chinese rubber as possible from Axis hands. Agreement had apparently been reached at Wiesbaden in January 1941 between officials of the French Ministry of Production and German economic experts to the effect that 25,000 tons of Indo-Chinese rubber a year should be allocated between Germany and Japan, although the Japanese were believed to be dissatisfied with this arrangement and to be demanding an extra quota for themselves. For some time there

¹ See pp. 81, 84-5 above.

appeared hope that the French need for dollars might save the situation as far as rubber was concerned; the U.S. Government did all it could by offering to conclude contracts with Indo-China for all available stocks, and for the 1941 production of rubber, tin, tungsten, antimony, and possibly other commodities, and at the end of February the French Government got to the point of promising 'a certain tonnage of rubber' for 1941, and possibly tin and other commodities. But there seemed little likelihood that the Vichy Government would be able to agree to any substantial rubber sales to America, and while the State Department continued its efforts the British Government reviewed during April the practicability of more drastic steps, such as the interception of French or Japanese ships, and the denunciation of the Decoux agreement. But the practical difficulties of interception remained: the small number of British ships available precluded the establishment of continuous patrolling in the vicinity of the Sunda Straits, and if interception took place within the China Station after the denunciation of the agreement the inevitable result would be an increase in the allocation to Japan. And it would certainly be folly, with only a couple of cruisers based on Singapore, to attempt to interfere with a Japanese ship sailing from Indo-China in face of the much superior Japanese naval strength in that area. Moreover, Sir Geoffrey Layton and the Governor of the Straits Settlements opposed the denunciation of the Decoux agreement so strongly that it was decided not to take further steps in this matter, at any rate for the time being. Nevertheless, the Governor of Hong Kong was told on 30th April by the Colonial Office that the financial agreement negotiated and so much desired by M. Gannay at the end of March could not be signed unless there were an improvement in British relations with Decoux: shortly afterward the negotiations for a financial agreement were postponed (by the Hong Kong authorities) indefinitely.

There remained therefore only the hope that substantial American purchases would reduce the flow of rubber to Japan. Indo-China had provisionally offered the United States Government 10,000 tons, but in return for this had requested the unfreezing of dollar balances in order to purchase a long list of materials in America, including arms, ammunition, and petroleum. The United States Government was apparently prepared to agree to the unfreezing of dollar balances after the shipment and delivery of 10,000 tons of rubber and had even agreed to the export to Indo-China of a consignment of arms and ammunition by the Barber Line, although it was prepared to refuse if the British Government objected.

But now on 6th May the Japanese Foreign Office was able to announce the conclusions of the long-drawn-out negotiations with Indo-China for economic collaboration. There were two agreements.

A 'Convention of Residence and Navigation' provided that the two countries would reciprocally accord in the main the same treatment as to their own nationals, or otherwise most-favoured-nation treatment, regarding entry, residence, possession and use of movable and immovable property, management of commerce and industry, the imposition of taxes of various kinds, and treatment of companies. There was also to be equal treatment in principle with regard to the shipping of the two countries. A second agreement concerned customs tariffs, trade, and methods of settlement, and was stated to be 'voluminous'. Details were not published, but the summary mentioned that each party would accord the other most-favoured-nation treatment, and that Indo-China agreed to admit Japan's principal products either duty free or at rates below the existing minimum customs duty, and to levy the minimum duty on all other Japanese products. Japan agreed, more vaguely, to accord the privilege of favourable customs tariff to the principal Indo-Chinese products. Commercial payments would be based on the barter system, and settlements would be effected in yen and piastres directly through the Yokohama Specie Bank and the Banque de l'Indo-Chine. 'Agreement of views had also been reached' regarding questions of the admission of Japanese commercial firms into the Federation of Importers and Exporters of Indo-China, and the participation of Japanese capital in agricultural, mining, and hydraulic concessions in Indo-China.

There seemed no doubt that the Japanese had secured facilities for penetration similar to those which they were trying to obtain at the same time in the Netherlands East Indies. The immediate problem however was to discover how far Japan would monopolize Indo-Chinese exports. The following details were given secretly to the British commercial counsellor in Tokyo by a member of the French embassy. Japan was to receive (in tons per annum):

- Rice: 700,000, minus Battambang crop (50,000 to 80,000), but plus what was not taken by France and French colonies out of 200,000 reserved for their use.
- Maize: 200,000, out of total crop of 450,000.
- Salt: 40,000.
- Sand: 80,000 (for use in manufacturing glass).
- Tin: 700, out of total production of 1,500, of which 500 was reserved for Indo-China and 300 for France.
- Rubber: 15,000 (to be paid for in U.S. currency). 18,000 was reserved for France in 1941, and 10,000 for U.S.A. This would leave from 20,000 to 22,000 for transit to Germany via Japan, out of a total crop of 63,000 to 65,000. The German allotment would be increased if the U.S.A. bought less than 10,000.
- Tungstic anhydride: 200, out of total production of 300.

- Manganese: whole production (which was small).
 Iron ore: deposits (of low iron content) would continue to be worked by joint French-Japanese enterprise: no limitation on exports to Japan.
 Apatite: no limitation on quantity.
 Zinc (laminated): 65 per cent. of total production of 65,000. 25 per cent reserved for France, and 10 per cent. for Indo-China.
 Coal (anthracite): 800,000—same quantity as hitherto.
 Copra: any quantity available for export.
 Castor oil: 1,000; wood oil: 800; lacquer oil: 1,500.

It appeared that the agreement regarding rice covered the period until the end of 1943, and that Japan, who was in no position to supply goods equal in value to those she would buy from Indo-China, had agreed to periodic settlements in United States dollars or guilders.¹

After these revelations Admiral Decoux was told on 26th May that the British Government's future attitude depended on assurances that the 10,000 tons of rubber allocated to the United States and such part of the allocation to France as had not already been shipped would in fact go to the United States or the British. On 1st June he replied through M. Pingaud, the French consul-general in Singapore, that negotiations for the delivery of the 10,000 tons to the United States were now on the verge of conclusion. No rubber had been sent to France since January, and the available rubber would remain in stock pending the receipt of further orders from Metropolitan France. On 6th June the Butler committee decided that it must continue to insist on receiving assurances about the rubber before agreeing to the delivery of oil. On 13th June it appeared that an early conclusion of the negotiations with the United States was now assured, and that there would be a shipment of 3,500 tons of rubber to the United States in June, followed by two shipments of similar quantity at two-month intervals. But a few days later came the German attack on Russia with the closing of the Siberian route and the beginning of the new phase with the Japanese occupation of Indo-China in July.

(iv)

Approaching crisis (April–June 1941)

Bogged in her exasperating struggle in China, Japan had, from one point of view, every reason to refrain from involving herself in

¹ Admiral Decoux's account of the background of the agreement (*op. cit.*, pp. 426–9) gives no details. He seems unduly surprised that the Anglo-American attitude was unsympathetic (cf. p. 421).

war with one or more of the white powers—Britain, the United States, or Russia—who were giving limited support to the Chinese Government. She knew that to prolong the existing deadlock until a possible defeat of Germany would free these powers to fight against her and would mean the disastrous end of her Greater-Asian adventure. Ultimately a successful attack on British and American possessions in the Far East came to appear the most acceptable means of escape from this dilemma; but there was a genuine opposition to this course which looked with more or less optimism to the possibilities of a bargain with the United States—one which would give Japan the fruits of victory without the risks of a greater war. There could be no question, however, that if the bargain were not struck, war could be the sole alternative to economic strangulation; and the technical possibility of victory would be greatest when German power in Europe was at its height. The American will to fight to a finish was persistently underrated.

In these circumstances it may well be argued that the British, Dutch, and United States Governments, in attempting after October 1940 to frame a policy of restraint which would yet avoid Japanese complaints of hostility and encirclement, had to some extent mistaken the conditions of the problem. The British Government had, however, been prepared in October 1940 to consider any measures which would weaken Japan economically and make her feel the effects of ranging herself against the democracies; it had believed that this bold course, if supported by the United States, would have the best chance of deterring Japan from violent action. Circumstances had made it impossible for the United States Government to join in any common discussions or action of this sort and it had been simpler to take action independently by complete embargoes on what was at first a very limited range of commodities. The British, British Dominions, and Netherlands Governments had accordingly to be satisfied with the principle of 'normal trade', and they had not gone beyond this in imposing severer restrictions except in a limited number of cases. Japan had had time to build up her stocks, and by the spring of 1941 she was believed to hold on an average a year's supply of all that she needed to carry on a major war. She now dominated Indo-China, and her activities in Thailand, with its valuable rubber and tin resources, were 'causing anxiety'. Exports from the Philippines to Japan had vastly increased. On the other hand, she was certainly not 'appeased', or conciliated: the cautious economic-warfare measures of the United States and the Allies had confirmed her settled conviction of their hostility. The Ministry, in a memorandum on the situation circulated in May, sufficiently revealed its own assumptions with the remark, 'our best allies proved to be the spokesmen of the Japanese Government. Their prayers for

German victory were at length hearkened to by the State Department and above all by the American public, so that after long and arduous discussion we are at last nearing our goal.¹

This goal being the imposition of the full programme of October 1940, its achievement meant the abandonment of the attempt to weaken the Japanese war-potential without stimulating Japanese reactions, and the substitution for it of wide restrictions which would, even at the risk of war, force her to use up her reserves. This change of policy was made possible by the willingness of the United States Government after March 1941 to take the risk of putting a full programme of export restrictions into effect, and this had been very largely achieved by the end of June 1941. In March, in an attempt to give a fresh impetus to the restrictive policy, the Ministry had argued that further action by the Empire and United States was necessary and practicable in the case of petroleum, iron and steel, manganese, nickel, chrome, tungsten, cobalt, tin, zinc, copper, mica, asbestos, wool, jute, manila, rubber, carbon black, potash fertilizers, and castor seeds.¹

Although technical discussions commenced between British and United States economic-warfare experts at Washington on 21st April their purpose was to coordinate action in the field of economic warfare generally, and in Far Eastern matters little progress was made; a week or two later Mr. Hull placed a ban on the discussions in so far as they concerned Japan. The immediate reason for this ban appeared to be the staff discussions at Singapore (21st-27th April),²

¹ In a paper giving a detailed survey of restrictions on Japanese imports at this date (11th March 1941). Iron and steel scrap was embargoed, and all except castor seed and manufactured asbestos appeared to be subject to export licensing, in the United States; licences might however be granted on the recommendation of the State Department, and only in the case of chrome, asbestos, and large orders of mica was it known that licences were definitely refused. Exports from the Philippines of iron ore, manganese, chrome ore, jute, and manila were still proceeding without restriction. The general position in the British Empire was that there were varying degrees of restrictions on exports to Japan extending from normal trade to complete suspension. There was complete prohibition of exports throughout the Empire in the case of iron and steel scrap, steels and ferro-alloys, tungsten (except in the case of the Hong Kong entrepôt trade), refined zinc, new copper, and munitions-grade mica. India had agreed to issue no licences for the export of iron ore to Japan. Exports from Malaya had been limited to normal quantities. Exports of pig iron from India had been restricted to less than 40 per cent. of normal; no shipments were permitted from Australia. India was restricting exports of manganese to 120,000 tons a year, and Malaya to 20,000 tons; Australia and South Africa had stopped exports. Chrome was restricted to normal trade throughout the Empire (practically zero). A combined maximum export from the Netherlands and British Empire of 4,000 tons a year had been proposed, on the assumption that Thailand would export 4,000 tons directly to Japan; under this arrangement Malaya would export not more than 1,000 tons, and the Netherlands East Indies would try to induce the Japanese to accept as little as 1,000 or 1,500 tons. Exports of zinc concentrates were limited to 5,000 tons a quarter from Australia and 1,000 tons from Burma. Mica of non-munitions grade was being exported by India to Japan; the amount was restricted to 125 tons a quarter. Asbestos was limited to normal trade or less. Crossbred wool was reserved entirely for United Kingdom consumption; 25,000 bales of merino a month were allowed to go to Japan from Australia, and 5,000 bales a month from South Africa. These quantities were slightly sub-normal. There were also details of the rubber situation.

² Morison, *op. cit.*, iii, 53-6.

but its continuance was no doubt due to the fact that the United States Government was still determined not to be hurried into a too-ostentatious policy of pressure. But in the succeeding weeks the United States export-licensing list was steadily extended; all petroleum products became subject to licence on 20th June, and so one of the few important gaps remaining in the system was closed. This action was, however, ascribed to the threatened shortage of tankers on the eastern seaboard, and did not mean that American supplies of petroleum products from the west coast to Japan would be affected for the time being. On 29th May the United States export-control system was extended to all United States possessions including the Philippines, but this did not lead to an immediate reduction in exports from the Philippines to Japan.

The United States Government still felt that it was important to avoid direct provocation. No final decision had yet been taken in the sphere of high policy. In both Washington and London it was believed that there were elements in certain private and governmental circles in Japan who would welcome a *détente* in Japanese relations with the democracies, and in the hope that something might come of this Mr. Hull embarked on his long series of conversations with Admiral Nomura, the new Japanese ambassador, who had taken up his post in Washington early in March. At his first extended conversation with the Secretary of State on 8th March Nomura had suggested that any further military movements by Japan would be due to the policy of increasing embargoes by the United States. But although in subsequent conversations the ambassador frequently insisted on the undesirability and futility of war between the two countries he had little to offer in reply to the argument, put by Mr. Hull in various forms, that Japan had the solution in her own hands, as she had taken the initiative in military expansion. Nevertheless a series of Japanese proposals for the conclusion of the Sino-Japanese war, which included the maintenance of Japanese troops on Chinese soil and the 'independence' of Manchukuo, was presented to Mr. Hull on 12th May; these were accompanied by provision for the resumption of normal trade between Japan and the United States, and an undertaking by the United States that as Japanese expansion in the south-western Pacific area was of a peaceful nature, 'American co-operation shall be given in the production and procurement of natural resources (such as oil, rubber, tin, nickel) which Japan needs'.

The willingness of Mr. Hull to enter on discussions on this basis caused great uneasiness in London. Mr. Eden's alarm was set out in a long telegram on 21st May; the substance of this was sent to the State Department on the 23rd. It said that Matsuoka's aim was to drive a wedge between the United States and Great Britain and to

withdraw from China without loss of face while retaining the Japanese position in Manchuria, Indo-China, and Thailand. The British Government believed that its economic pressure on Japan was at last making itself felt; the Dutch and British positions were growing stronger; Japan's fear of United States action was, however, still the chief deterrent. The Japanese moves were a trap into which the British were confident that the United States Government would not fall. This communication threw Mr. Hull into a 'state of pained and reproachful indignation'. Lord Halifax had a highly embarrassing interview with him on the 24th. The *aide mémoire* clearly seemed to Mr. Hull a criticism of 'his good faith with us or his sagacity in dealing with the Japanese'. Lord Halifax said he would withdraw the *aide mémoire* at once if it was distasteful. 'Nothing that I could say, however, had much effect on his state of feeling, which can be measured by the fact that he reverted once more to Manchukuo and the Simon-Stimson episode by way of illustration of the relative merits in the past of United Kingdom and United States policy.' Mr. Eden sent a conciliatory telegram and on the 27th Lord Halifax found the Secretary of State 'in a much more reasonable mood'. The incident is worthy of mention, not because it indicated any genuine rift between the two Governments—rather the reverse—but because it shows how blindly the British Government was expected to follow the American lead and how alarming this appeared at times. Some weeks went by without any further information as to the Hull-Nomura conversations.¹

While the Americans were not prepared to follow the British lead in such matters as interception in the Caribbean they expected the British to follow their lead promptly in the imposition of quotas, although the British Government was seldom, if ever, consulted or informed in advance about the American intentions. This provided a series of minor misunderstandings between Washington and London in this period of rapidly changing policy, although from April onwards the British Government was willing enough to take the necessary steps to tighten up its own restrictions, subject to the special problems and conditions of British territories. Mr. Hornbeck still seemed to Mr. Noel Hall to be nursing old grudges against the British Government and was continually critical of its attitude on Far Eastern affairs. He regarded the provision of even modest

¹ The facts in this paragraph were derived from the relevant F.O. telegrams. The full story of the Hull-Nomura negotiations, based on State Department and intercepted Japanese documents, is told by Feis, *op. cit.*, pp. 171 *et seq.*; Langer and Gleason, *op. cit.*, pp. 465-93. A summary of the negotiations was given in the official U.S. publication, *Peace and War: United States Foreign Policy 1931-1941* (reprinted by H.M.S.O., 1943), pp. 78-9. Cf. Sir Winston Churchill's comments, *The Grand Alliance*, pp. 167-72. The myth that Stimson had been held back from some decisive action against Japan by Sir John Simon in 1932 was still widely accepted in Washington, but not apparently by Sumner Welles: see *The Time for Decision*, p. 279. Hull's account is given in *The Memoirs of Cordell Hull*, ii, chaps 71-80.

quantities of gasoline for Thailand as appeasement, and it was with difficulty that he was brought to accept the necessity for a policy of limited concessions in that quarter. He also complained in July of the continuance of supplies from the British Empire to Japan of oil products, mica, fluorspar, lead, manganese, and zinc concentrates. A detailed reply on 22nd July showed that in the case of mica, lead, manganese, and zinc concentrates information as to United States restrictions had been received only recently, or was incomplete; in the case of oil the only British exports were from British Borneo, which was in a vulnerable position, although supplies had nevertheless been reduced to one-sixth of the normal quantities of the past four years. In the case of fluorspar there had been a genuine delay owing to an oversight in the Ministry of Economic Warfare. The telegram remarked that if the State Department was unable to give previous notice of its restrictions it must 'allow us time to arrange with governments concerned the best method of enforcing parallel restrictions, but they can be assured that it is our policy to keep in line with them so far as our conditions are analogous'.

Steps had in fact been taken in April to tighten up restrictions, in line with American policy, on a number of commodities including zinc, lead, asbestos, wool, bauxite, jute, and tanning materials. The United States Government had restricted exports of phosphates from Florida to Japan to a 'normal trade' basis of 260,000 tons a year; the British Government arranged that no phosphates should be sent from Egypt, Ocean and Nauru, only 50,000-70,000 from Christmas Island, and not more than 160,000 from the Free French Makatea. Following the United States embargo on the export of petroleum coke (used in the production of carbon electrodes) the Shell Company agreed not to supply any from Rangoon, and the N.E.I. was asked to limit exports from Palembang. Sir Robert Craigie received Japanese complaints in May on a number of matters, including the restrictions imposed on Japanese trade at Hong Kong, the blacklisting of a number of Japanese whalers, and the Empire embargo on exports of copra. By the end of June, when the German attack on Russia had already opened a new phase in the Far Eastern situation, further plans of restriction were under consideration in London.

Official circles in London by no means disapproved of the American attempt to soften or disguise the blow to Japan's war potential. Sir Robert Craigie continued to deny that the economic restrictions imposed by the British Empire were due to other causes than (a) the conservation of vital war supplies, (b) the prevention of the passage of contraband to the enemy, and (c) certain measures necessary for purely security purposes. There was some discussion in the Ministry in April as to whether this 'somewhat hypocritical line' was the best

one to follow; would it not be advisable to say plainly that although the aim of the Allies towards the Japanese as a non-belligerent member of the Axis was to reduce their war-potential, there was no intention of destroying their means of subsistence, and their means of carrying on production for genuine civilian purposes? In other words should they not be shown that they had an incentive to keep out of war? It was, however, argued against this view that in any case the Japanese would probably not believe these assertions, and were likely to be more distrustful of a frank statement than of one which was 'smooth even though obviously false'. Another argument against making excuses was that it would be very difficult to do so without raising suspicion in both Great Britain and the United States. The general conclusion was that the consistently anti-British speeches and actions of Japanese politicians provided in advance all the justification that British policy needed. The Japanese themselves provided numerous opportunities for talk on these lines. Replying to the chiding of the Japanese ambassador, Mr. Shigemitsu, Mr. Eden denied on 25th April that British policy was based either on vindictiveness or on fundamental hostility to Japan. It was due in part to Britain's own war needs; in part to the fact that as Japan had declared herself an ally of Britain's enemies, it was impossible to send materials for transmission to them. Sir Frederick Leith-Ross on 12th June gave the ambassador the usual explanation of the restrictions on exports to Japan imposed by the British Empire; it was known that the Soviet Government had arranged to provide transport for at least 600,000 tons a year over the Trans-Siberian railway for supplies to Germany; about half this tonnage was used for soya bean exports from Manchuria, the rest included large quantities of animal fats, whale oil, fish oil, vegetable oils, copra, and a substantial tonnage of rubber and other vital war materials. Shigemitsu made few comments on this statement, but remarked that British measures, coupled with those taken by America and now by the N.E.I., were causing a feeling of insecurity: was not some compromise possible? Leith-Ross replied that there had already been numerous concessions to Japan in the case of German exports, but he could see no possibility of a compromise with regard to contraband passing to Germany.

The general impression left by a survey of restrictions on Empire exports to Japan at this point is that severity was marked in commodities of highest strategic importance, while predominantly civilian needs were little affected. Thus all the important ferro-alloying metals, with the exception of manganese, were subject to complete embargo; the non-ferrous metals were embargoed with the partial exception of Malayan bauxite, zinc concentrates, and lead; the higher qualities of heat-resisting minerals, graphite, asbes-

tos, and mica, were subject to embargo; restrictions on metals for the iron and steel industries—ore, pig, manganese—were less severe, although scrap was embargoed. On the other hand Japan was allowed practically unrestricted access to Empire textile materials with the partial exception of Indian jute; raw cotton, which was perhaps the largest single item of Japan's imports from the Empire, was free from all export restrictions. Wood pulp had recently been embargoed by Canada. With the exception of copra and of Canadian wheat, no attempt had been made to reduce below normal quantities exports of food or foodstuffs to Japan.

United States restrictions on Japanese imports were now rather more severe than those of the British; it appeared that licences were being refused for export to Japan of practically every item on the export-licensing list, which included, among other commodities, jute, carbon black, rubber tyres, animal and vegetable oils and fats, ferro-alloys, and all important minerals. There was still, however, no restriction on cotton or on mineral oils other than aviation spirit, although restrictions on containers impeded Japan's imports of whale oils. The banning of oil exports from eastern ports in the United States on 20th June (except to the British Empire, Egypt, and the West Hemisphere) was due to a genuine local shortage of transport.¹ The programme of United States purchases in Latin America, which covered copper, wolfram, lead, zinc, quartz, mica, beryllium, rutile, and nickel, was already beginning to exclude Japan from a number of important sources of raw materials. On the other hand the quotas imposed by the Netherlands East Indies were perhaps not generous according to Japanese standards, but they were for the most part in advance of Japan's pre-war imports from this area. This was particularly so in the case of petroleum, although aviation petrol was reserved for Allied use. The Belgian and Free French Governments had also cooperated in the general scheme of restriction to normal figures or, where necessary, less.

(v)

The Freezing Orders

It was expected that the German attack on the Soviet Union on 22nd June 1941 would produce some dramatic decisions in Tokyo, but until the Japanese occupation of southern French Indo-China on 26th July Great Britain and the United States continued their previous course of gradually tightening the economic screw,

¹ Ickes' diary gives details of his uneasiness at the continued supply of oil to Japan (18th June–1st July), and Roosevelt's unwillingness to make a decision to cut off oil. *The Secret Diary of Harold L. Ickes* (London, 1955), iii, 553–68.

without going so far as to provoke an explosion. It was anticipated that Japan would ask the British Government for the relaxation of the existing restrictions on imports, on the ground that the closing of the Siberian route had put an end to trade between Germany and Japan, and the Ministry at once took the view that there was no ground for any such relaxation. The possibility of a reopening of the route after a Russian collapse could not be ignored; if Japan were allowed to import freely in the meantime she would acquire large stocks which could be moved at once across the railway. More cogent was the argument that she remained a potential enemy and if she were tempted to attack Russia the relations between Britain and Japan would become even more embroiled. The Far Eastern Committee accepted these views on 26th June, and agreed that there were no grounds for any relaxation of pressure; in particular, decisions already reached regarding the restriction of lead and other commodities should continue. The War Cabinet accepted this decision.

The Japanese embassy in London did in fact make some attempt to secure economic concessions; M. Kamimura told Leith-Ross on 27th June that Japan would remain neutral, that there was a possibility that M. Shigemitsu might become Foreign Minister, and that there might be a more favourable alignment *vis-à-vis* the democracies. Some concession with regard for example to copra would help. Japan was very short of fats and had opened a contract for supplies of 13,000 tons of copra from New Guinea, but these were being held up as a result of British objections. It would now be impossible for Japan to send any copra to Germany. Sir Frederick's reply foreshadowed the line followed during the next four weeks: if he were sure that Japan was really ready to reverse her past policy, he would be glad to consider whether any copra could be let through, but as Kamimura himself said, 'the situation was obscure'; in any case, now that transport to Germany had ceased, Japan should find that the shortage of vegetable oils no longer existed.

The Ministry's case against releasing the copra was that according to official Japanese figures her direct imports in metric tons before 1940 had been: 10,647 (1936), 11,694 (1937), 9,429 (1938), and 5,922 (1939), but she had imported 24,000 tons in 1940 according to the statistics of exporting countries, and in 1941, up to the end of May, she was estimated to have already imported at least 46,306 tons. In addition N.E.I. had agreed to send a further 1,650 tons a month, and about 10,000 tons were available in Indo-China.

Kamimura returned to the charge in a letter dated 3rd July; the copra was 'urgently required entirely for domestic consumption in Japan'. Leith-Ross replied on 5th July that 'so long as Japan is publicly and even vehemently ranged on the side of our enemies,

we find it very difficult to give her the assistance which you ask'. Discussions with the Ministry's expert on oils and fats followed, and a further letter from Kamimura on 14th July attributed the Japanese deficiency in fat supplies to a reduction of the sardine catch by 50 per cent. and of the soya bean crop by 30 per cent., thus creating the need for an importation of 100,000 tons of copra. The Ministry still found these arguments unconvincing, but by this stage the probability of Japanese aggression in Indo-China had put an end to any serious consideration of a relaxation of controls. By 14th July it was known that Japan had demanded the consent of the Vichy Government to the acquisition of naval and air bases and other facilities in Southern Indo-China and the Foreign Office told the Ministry on the same day that retaliatory measures against Japan might be required almost immediately.

The Far Eastern Committee in anticipation of a southward move by Japan had discussed the question of retaliation on 4th July, and had noted a number of possible moves such as restrictions on Japanese ships trading on the coast of Malaya, the moving of Australian troops to Timor, the withdrawal of French shipping from Indo-Chinese to British and Dutch ports, the denunciation of the Anglo-Japanese commercial treaty, the closing of the Japanese consulate-general at Singapore, the black-listing of Japanese firms, the restriction of Japanese assets in the United States, and the restriction of Japanese exports. The governing considerations were that action would need to be prompt and vigorous, and that, on the other hand, armed action was ruled out owing to the lack of Allied resources. The War Cabinet did not approve the suggestion that Australian troops should be sent to Dutch Timor, but it authorized the Foreign Office to consult with the Dominion Governments and Sir Robert Craigie as to the desirability of denouncing the Anglo-Japanese commercial treaty. It also authorized some tightening of the existing economic restrictions on Japan. But the fact remained that with their limited resources, and in the existing state of the war, the Allies could take no really dramatic step without the cooperation of the United States, which had hitherto not seen its way to any such punitive economic action as the freezing of Japanese assets. The initiative remained therefore with the United States Government, which was in fact preparing itself for decisive action.

Throughout June the State Department had been extremely reticent about the Hull-Nomura discussions. When Halifax asked Welles about the talks on 27th June the latter replied that he was not in on them himself and that Hull had gone away for a change, but had said that 'matters looked hopeful'. 'I left it at that rather than try to pull out unwilling teeth,' commented the ambassador. Hull's ban on discussions on Far Eastern economic-warfare questions

between the officials of the State Department and of the British embassy also continued throughout June and the first half of July.

It was known, however, to both governments by the end of June that a Japanese occupation of southern French Indo-China was being planned, and Halifax was able on 7th July to talk to the President about Anglo-American counter-action. The conversation showed that Roosevelt's mind was not yet made up, and he ended by asking Halifax to discuss with Welles (as acting Secretary of State) whether in the event of a Japanese initiative it would or would not be a good thing for the United States Government to announce at once the placing of Japan under all possible economic pressure. Would such action be a deterrent, or would it precipitate the Japanese into the N.E.I., which neither the United States nor Great Britain wanted? Welles on the following day said that he had consistently advised the President to place a complete economic embargo on Japan as soon as the Japanese committed any overt act, but he was not in favour of announcing this policy to them in advance, as this might play into the hands of extremist elements.¹ Welles was able however on the 10th to say that the President was ready to reply to any overt Japanese steps with financial and economic embargoes.² Another ten days elapsed before the American plans began to take their final form. Telegrams from London on 10th July made clear the British Government's desire for concerted measures. The steps that it contemplated were the defence of the Malayan coast, the denunciation of the commercial treaty, the closing of the Japanese consulate-general at Singapore, and the restriction of Japanese exports and imports. On 14th July Halifax gave Welles a short note setting out these British counter-measures, and asked whether he would be willing for officials of the State Department and the embassy to examine detailed points, including the proposed American measures. This meant the removal of the ban imposed in May, and Welles readily agreed, although he stipulated that Noel Hall should see Hornbeck, the Far Eastern adviser, and not Acheson.

¹ This reticence seems to have defeated its own purpose, and to have strengthened the Japanese willingness to take risks. The Japanese occupation of Indo-China which shortly followed was influenced by the belief that the United States Government would make no serious objection. 'Interrogation of Japanese officials and perusal of documentary evidence show that this undertaking was again not expected to result in major hostilities. The forceful reaction in Washington came as a surprise' (*The Effects of Strategic Bombing on Japan's War Economy* (U.S.S.B.S., Dec. 1946), p. 9). Cf. W. S. Churchill, *The Grand Alliance*, p. 172.

² References to the conversations over the freezing agreements are from Lord Halifax's telegrams to Mr. Eden and from notes given to the author by Mr. Noel Hall in 1943. Cf. Feis, chaps. 28-30, for a detailed account of discussions inside the United States Government. Ickes, *op. cit.*, throws some further light on the U.S. Cabinet discussions preceding the freezing agreement (iii, 583). Hull's memoirs are unilluminating. He was away from Washington, resting after an illness, from 23rd June to 4th August. (*Memoirs*, ii, 1012, 1016.)

As Hornbeck clearly did not know what was being planned by his superiors the arrangement was probably a device to postpone conclusive conversations for a day or two longer. Halifax again discussed the position with Roosevelt on the 15th, and now found that the President did not believe that the Japanese would launch any large-scale adventure at this moment; he thought that even if they did it would not be a very difficult job for the United States and British Governments, acting together and relieved of their European anxieties, to make it impossible for them to maintain themselves there. In other words the President was trying to persuade himself that action could safely be left until the defeat of Germany. Noel Hall's conversations with Hornbeck on the 16th and 17th were inconclusive; at the first talk (on the morning of the 16th) Hornbeck showed no sense of urgency, and said that as far as he knew the embargo would be applied only to petroleum products. The only point on which he seemed positive was that United States supplies of silk from Japan were so important that it was unlikely that any complete embargo would be imposed on them. Hall urged him to see Welles personally as soon as possible in order to secure the necessary instructions. The later discussions were, however, also inconclusive; Hornbeck harped on misunderstandings between the two countries going back to the Simon-Stimson conversations of 1932, the closing of the Burma Road, and other evidence of British lukewarmness in taking measures against the Japanese; eventually he took up the position that he could not disclose how far the United States Government was prepared to go in applying economic pressure to the Japanese until he knew details of what the British themselves proposed to do. He was clearly convinced that the United States Government was doing considerably more than the Allies in restricting supplies to Japan. This was not very helpful, for the military conversations earlier in the year had left the initiative in Far Eastern affairs with the Americans. What did seem clear at this stage was that in spite of continued references to a 'complete economic embargo' the United States Government had no intention of severing all economic contacts with Japan. When Halifax again raised the matter Welles agreed that the talks should be transferred from Hornbeck to Acheson.

This meant that a decision was about to be taken by the American authorities at the highest level. A general indication was given to the embassy on the 17th that the United States Government was seriously considering the freezing of Japanese assets if the Japanese acquired bases in south Indo-China, and would find it helpful if the United Kingdom would propose joint action. It would also welcome very quickly any comments on technical points to which the British authorities attached importance. The more detailed

discussions were conducted mainly by Acheson and Noel Hall, and proceeded rapidly.

In London there was still much uncertainty as to the best course to be followed, owing to the continued possibility that American reservations would have the effect of leaving the British and Dutch to bear the brunt of Japanese retaliation. The 'complete economic embargo' which the President had mentioned on 7th July would force the Japanese either to back down completely, or to exert maximum pressure southward even to the point of war; yet he had made it clear that the United States Government was not prepared to go to war if Japan forced the issue in that way. Reports that the economic embargo would probably not be complete also caused concern, for it was the opinion of the Ministry of Economic Warfare that it would be easier to impose a complete embargo on Japanese imports and exports and to freeze Japanese assets than to embargo any particular commodity. Mr. Eden, in a telegram on 12th July, said that he agreed with Mr. Welles that it was better to keep Japan guessing, 'as the strongest card we hold in this game is fear of war with the United States'; a further Foreign Office telegram on the 15th took a rather different view, and suggested that as Japanese action in February had been baulked by timely publicity it might also be possible now, by reporting news of the proposed Japanese action in the press, to deter the Japanese Government. But the fact was that no one really knew how the Japanese would react, and anyway no course was open to the British Government other than more or less blind acceptance of the American lead.

In the meantime the technical aspects of freezing were being examined in London by the Bank of England, the Treasury, the Foreign Office, and the Ministry. Japanese-owned sterling securities were already blocked, and strict limits had been placed on credit in favour of the Japanese and on advance payments to them. Japanese holdings of sterling and other Empire currency were low, amounting to roughly £1,600,000 in the United Kingdom, and £2,600,000 in the rest of the sterling area (mostly in India). They were probably not more than were required for payments to residents in the sterling area and for payments in the near future in respect of business already done. If, therefore, freezing were imposed and strictly maintained the effect would be to keep British creditors out of their money and probably hurt the British more than the Japanese. It would certainly mean, if applied for the whole sterling area, that Japanese imports into India, Malaya, South Africa, and elsewhere would cease. There were, however, various possible alternatives. Action could be taken under the existing Exchange Control to block Japanese balances and to provide for their release only to a special account; this would have the advantage of canalizing Japanese

sterling and preventing Japan from selling on the free market, and would presumably annoy the Japanese owing to its unilateral character, although it would probably not be sufficiently dramatic to suggest punitive action unless this were specifically announced. Moreover it would not do them much harm if their existing balances were in fact required mainly for maturing payments within the area. Or, after the issue of a freezing order, releases could be allowed to meet debts due to British creditors, or new trade under licence; these releases would have to be so extensive as virtually to nullify the order if British interests were not to suffer unduly. The essential question was the purpose that freezing was intended to serve. A Freezing Order could be relaxed to meet new trade as licensed; this had been done by the United States in the case of France, where the purpose of freezing had been primarily the protection of the assets of an invaded country. But action was now proposed against Japan not because of her indirect assistance to Germany, but because of her forthcoming occupation of Indo-China; it was, therefore, a reprisal and a warning, and would lose its effect if it were watered down.

Other forms of retaliation were discussed with the Dominion Governments. The British Government suggested the denunciation of the Anglo-Japanese commercial treaty and sought their opinion as to the feasibility of a virtual cutting off of Japanese imports into British territories. All agreed to the denunciation of the treaty, although Mr. Menzies telegraphed on the 16th from Canberra that it would be regarded by all parties as a 'pretty ineffective' reprisal, and he repeated a former recommendation that if reprisals were necessary they should take the form of severe restrictions on exports from Japan by all countries. On the 17th certain further economic measures were suggested: namely the closing of the Japanese consulate-general at Singapore and the placing of the firms of Ishihara and Okura on the statutory list. Ishihara was connected specially with Japanese enterprises in Malaya, and Okura had always had close connexions with Germany. Neither firm was of the same importance as Mitsui and Mitsubishi, but there had been a general feeling, which the Dominions shared, that to list these vast combines would be virtually to declare economic war on Japan. The Governor of the Straits Settlements was not in favour of the closure of the Japanese consulate-general at this stage, but otherwise the Empire Governments were in general agreement with these proposals.

At last, on the morning of 19th July, Sumner Welles told Butler and Noel Hall that the necessary orders with regard to Japan were before the President, although he was not able to say in what direction they might be modified before the President signed them. He expected the orders, if and when signed, to include the following: (1) ruthless freezing of all Japanese and Chinese assets, the latter

at the special request of the Chinese Government; (2) a further reduction in the octane content of petrol which might be exported to Japan from the United States; (3) possibly an embargo on the importation into the United States of silk of Japanese origin. In reply to questions Welles said that United States supply considerations would not be taken into consideration, as had, theoretically at least, been necessary under the American export-licensing system; the form of action contemplated would facilitate closer cooperation between the two countries. He showed no concern at any possible initial disparity between British and American measures and did not press for any disclosure of British intentions. On the same day London telegraphed that in the event of an overt action by Japan in Indo-China the Anglo-Japanese commercial treaty, the Indo-Japanese convention of 1934, and the Burma-Japanese convention of 1937 would be denounced.

On the 21st Acheson explained to Noel Hall that the Freezing Order would be so administered as to bring trade, in the first instance, to a complete standstill; after this however the United States would be 'prepared to contemplate' specific licences for particular transactions. Thus it seemed that the intention was to use the freezing order as a flexible weapon, bargaining with the Japanese as to the terms upon which licences for the release of assets should be issued. There was clearly grave disputation among the American officials as to how far the government should go, and it does not appear that there was any settled intention at this stage of completely severing economic contacts. On the 24th Hall was told that cotton exports would probably be limited to those of a specially selected year, when Japanese imports had been particularly low; the grade of petroleum products would be fixed so low that no Californian gasoline would be available for export; iron ore and scrap iron were to be subject to special treatment; a free list of drugs and humanitarian goods was to be established. The Japanese occupation was reported to have begun on the same day. The President was to make his decision on Friday, 25th July, and it was expected that the announcement of the freezing of Japanese and Chinese assets would be made at the close of business on that day.

London waited with praiseworthy patience for the decision. It had been decided as early as the 20th that the United States did not intend to take action so drastic as the earlier talk of 'complete embargoes' and 'ruthless freezing' had suggested. On 22nd July Washington was told that the British Government was prepared, in the paramount interests of Anglo-American cooperation, to follow the United States lead, and the freezing of Japanese and Chinese assets in the sterling area had accordingly been recommended to the Empire Governments. The timing and other detailed problems

were discussed at meetings of the Far Eastern Committee (on 24th July) and at the Far Eastern Economic Sub-Committee (on 25th July). At the former it was announced that the Foreign Secretary had obtained the approval of the War Cabinet to the following three guiding lines of policy:

- (i) that we must on no account discourage any action which the United States may wish to take in pressure on Japan and that we must as far as possible match our action with theirs;
- (ii) that, although from our own point of view the best moment to force the issue might be when (and if) Japan became involved with Russia, we must, in the paramount interests of Anglo-United States co-operation, be prepared to follow a United States lead in forcing the issue over the Indo-Chinese bases; and
- (iii) that, if we are called upon to go to lengths which involve a plain risk of war between ourselves and Japan, we should make every effort to obtain the clearest possible indication from the United States, that, if war between the British Empire and Japan follows, consequent upon an attack by Japan either upon ourselves or on the Dutch, we can count, without reservation, on the active armed support of the United States.

Telegrams had been sent to the Prime Ministers of the Dominions and the Governments of India and Burma putting these conclusions to them, and explaining that although the British expectation of unreserved American support could be announced to the United States Government it was not to be expected that the latter could give an unconditional guarantee of armed action in reply. In addition, plans of economic sanctions of varying degrees of severity were drawn up, and were to be applied in accordance with the American decision.

Noel Hall finally received a message from Acheson shortly after 5 p.m. on Friday afternoon (25th July) to come at once to the State Department and he was confronted with a fairly extensive plan which had just received the President's approval. It included a basic year for cotton exports (1940), a qualitative and quantitative control over petroleum products (with 1935-6 as the basic year), and quantitative control over other commodities. In addition very severe rules were to be imposed under the freezing order: in effect a licence would be required before the exchange between a U.S. citizen and any Japanese of any document giving title to value. Some of the details did not seem to Hall to be altogether compatible with each other or to correspond exactly with any one of the alternative British plans, and the Dutch, who were brought into conference on the matter for the first time, naturally needed a good deal of help in mastering the proposals. Eventually, however, Hall was able to get off a telegram to London at about 6.30 or 7 p.m., that is to say about 1.30 to 2 a.m. London time, and, in his own words later, 'by

a superb feat of administration, British policy in line with U.S. policy as we then understood it was accurately announced on the B.B.C. at 7 a.m. and the Empire opened for business on the Saturday morning in line with the U.S. policy as up to then expounded'. The Australian minister in Washington, Mr. R. H. Casey, had been in close consultation with the British officials throughout the discussions, and fully shared their understanding of the gravity of the American decision.

The circumstances leading up to the British Government's decision have been described in some detail, for they show how uncertain at every point was the basis on which it had to operate. It was not known whether the United States Government intended to apply the order strictly or leniently; it was not even known whether, if the British and Commonwealth and Netherlands Governments followed the American lead, they would receive American support against an armed Japanese retaliation. Nor did the answer to these questions become much clearer in the immediately following weeks. It appears that it was not until September that the United States Government finally decided to administer the freezing order with severity, and even this decision seems to have been taken as confirmation of, rather than as a prelude to, administrative action.

A Presidential Order of 1st August allowed some trade; licences might be issued for low-grade oil (up to 1935-6 figures), for cotton, and for food exports to Japan (subject of course to export control); payment might be debited to blocked accounts.¹ The orders issued for the Philippines were still less drastic than those for the United States. A general licence was granted for all ordinary trade between the Philippines and Japan (and China) and for all ordinary business transactions by Japanese firms within the Philippines. On the other hand the general licence for Philippine-Japanese trade did not cover trade with any other country nor permit payment from a blocked account in the United States proper. On 31st July, the U.S. Department of Commerce announced that Japanese ships were now prohibited from using the Panama Canal 'owing to repairs', and it was reported in the press on 4th August that all sailings of Japanese ships to the United States had been suspended indefinitely. But it did not appear that the freezing of Japanese assets would be used for the time being to cut off all trade with Japan.² The Japanese, though retaliating promptly with freezing orders of their own, seemed very ready for any compromise which would allow them to obtain the imports which they needed.

British action followed American as closely as possible. In the

¹ Feis, *op. cit.*, pp. 247-8; Langer and Gleason, *op. cit.*, p. 655.

² Sumner Welles told Ickes on 3rd August that the Japanese attitude had been less hostile during the last 24 hours. Ickes, *op. cit.*, iii, 594.

Empire a separate order to cover China was issued on 28th July. Certain relaxations were granted in the application of the British freezing order in North Borneo and Malaya, the Governor of the Straits Settlements being authorized to grant licences for the export of iron ore, manganese, and bauxite within the limits allowed by the export-licensing procedure. Export licences for manganese and bauxite were, however, to be cut by 50 per cent., while the exports of iron ore would be similarly limited by security measures prohibiting the loading of Japanese vessels during the hours of darkness. Concurrently with the issue of the freezing order notice was given to the Japanese Government of the denunciation of the commercial agreements between Japan and the United Kingdom, Canada, New Zealand, India, and Burma.

But the British Government was facing an awkward dilemma. On the one hand the freezing orders had been publicly hailed as a major economic blow to Japan, so that the worst impression would be created if it were found that they constituted in fact no serious economic blow at all. On the other hand, it was obviously undesirable for the British to go ahead of the United States in any measure against Japan. Two most urgent and closely related problems therefore faced the government in the immediate future. The first was to ensure that the policy of economic pressure on Japan would not be relaxed until it had achieved its purpose; the second was to ensure that the United States Government would be prepared to stand by the British Empire if war followed this policy of economic pressure.

The second of these problems raised great political issues. Mr. Eden and Sir Alexander Cadogan discussed the question with Mr. Winant on 31st July; the United Kingdom and the Dominions had, they said, welcomed the action of the United States in freezing Japanese assets and had felt that they could not give the impression of hanging back by discussing risks with the U.S. Government, but they were now anxious to find out whether, if the present action brought the British Empire and the Netherlands East Indies into conflict with the Japanese, they could count on the armed support of the United States. Winant thought that it would be better for the approach to be made directly by the Prime Minister to the President, and shortly afterwards the Atlantic meeting took place, with discussions which far transcended even the problems of the Pacific. Welles in conversation with Halifax on 6th August had, however, already referred to the inevitable involvement of America if the Japanese attacked the Dutch or the British.

The first question, however, that of continued economic pressure on Japan, fell directly within the sphere of economic warfare, and by the end of August American intentions were becoming clearer.

The Ministry's view was that in its desire to keep the Japanese guessing the United States Government had to keep its friends equally in the dark. But it is by no means certain that even the highest American officials saw their way very clearly. A Foreign Office telegram of 2nd August asked bluntly whether the State Department intended to weaken the whole position by granting licences; such a course was 'unlikely to have a deterrent effect on Japan and disappointment elsewhere will be correspondingly great'. Particulars of the American plans, following the Presidential Order of 1st August, were sent to London in three telegrams later on the 2nd. Cotton exports from the United States were to be held at roughly the 1940 level of 600,000 dollars a month; licences for petroleum products would be issued monthly on a pro-rata basis, but specifications had been carefully drawn up to embargo all Californian crudes unless the Japanese chose to arrange for these to be specially treated to exclude gas. All blending agents, including tetraethyl leads, were already embargoed. There would be 'an over-riding wish' to prohibit exports to Japan of certain qualities of crudes, gasolines, and lubricants. Applications to release dollars for imports required in the United States would be considered, but dollars which were the proceeds of such sales would be earmarked to pay for permitted exports. The proceeds of the sale of Japanese silk and gold would not be free from the freezing order; Acheson had soon satisfied himself that the United States could dispense with silk.

During August therefore British policy was reshaped in accordance with what appeared to be the American plan of partial embargo. On 7th August the arrangements which had been adopted for the United Kingdom and the colonial empire were explained to Washington. Accounts and assets existing at that date, and future payments into such accounts, would remain blocked. Licences had been given to meet pre-zero (i.e. pre-freezing) mandates of payment and would be given to meet approved pre-zero commitments, including payment to residents in the sterling area for goods already dispatched, payment for the service of Japanese sterling loans and to cover normal salaries, rent, and the like of branches in the sterling area of Japanese concerns and the maintenance of Japanese residents in the area. The export-licensing system was extended to cover all exports to Japan, the Japanese Empire and Mandated Islands, Manchuria, Korea, Formosa, and the Kwangtung Leased Territory; all outstanding export licences from the United Kingdom, India (except for cotton and coir), Burma, and the colonies had been revoked. Where imports from Japan into the United Kingdom or colonies were regarded as of essential importance and Japan was willing to supply on a quasi-barter basis, payments for such imports would be made to a new clearing account of the Yokohama Specie

Bank with the Bank of England. Sums standing to the credit of this clearing account would be available to Japan to pay for exports from the United Kingdom or colonies which the British might agree to license in order to obtain essential imports of corresponding value. It was explained to Washington that although this system was somewhat different from that envisaged by the United States Government, it was likely to have much the same effect as the American, namely the cessation of trade except for specially licensed transactions. During August all exports of Malayan bauxite were prohibited, but in view of the American decision to permit a continuation of the export of cotton to Japan up to the level of 1940 exports the Government of India as an interim measure adopted what it believed to be a similar policy in respect of its own cotton exports. The 1940 level was however to be an upward limit, and Japan would have to pay out of frozen funds or the proceeds of future exports to India, which would be limited to what India considered essential. A similar policy was adopted for Indian coir.

Then in the course of the next few weeks the practical effect, if not the planned purpose, of the United States Government's programme became clearer. While Acheson still spent a good deal of time discussing with Hall and the Dutch representatives details of quantities and qualities of goods to be permitted to go to Japan, he and his associates were already administering the freezing order in ways which made these discussions abortive.¹ On 16th August the Ministry telegraphed to Washington saying that it was essential to know whether assets already frozen in the United States were to be released for exports to Japan, as the policy recommended to the Empire Governments and followed in the United Kingdom was to release Japanese assets only in so far as they might accrue from the proceeds of imports from Japan, licensed as being essential subsequent to the introduction of the freezing order. On the 20th the embassy was able to give the first real clue to the American attitude. Further details were sent next day. In the case of cotton the Japanese had applied for export licences to a value of nearly 4,000,000 dollars; as the monthly quota was only 600,000 dollars an official had recommended the issue of a licence up to that amount, but Welles had refused his permission, saying that he saw no reason to tell the Japanese how big their quota was. 'If they applied for more modest quantities, they would discover quota limit slowly by a building-up process. Result, stalemate.' Export licences had been issued for permitted petroleum products, but the Japanese had been told that applications for the release of funds would have to be considered in the light of the known facts, and as the Yokohama Specie Bank had

¹ He was one of a committee of three (with representatives of Treasury and Justice Departments) responsible for the administration of the freezing order.

withdrawn 2,000,000 dollars in notes just as the freezing order came into effect it was difficult to believe that funds were really needed. When the Japanese explained that these funds belonged to the Japanese Navy and were outside the control of the Japanese Government the State Department replied that the Japanese were known to have 6,000,000 dollars in South America. The State Department showed no interest in a further Japanese proposal to exchange American cotton and oil for Japanese silk. This was followed by an 'unofficial' Japanese suggestion that Japan and the United States should each release goods that had been ordered and paid for by nationals of their respective countries before the freezing order. The State Department replied that the list of American purchases which the 'unofficial' Japanese spokesman had presented was incomplete, and in any case there were no Japanese purchases that had been paid for and detained in the United States by any act of the United States Government. In explaining these steps to the British embassy the State Department took the line that no further decision had been taken since the President's return to Washington on 17th August; but the practical point was that the obstacles which were being put in the Japanese path prevented the necessity for the grant of any financial licences at all.

During the next two or three weeks this *non-possumus* attitude was continued; it was insisted, as a condition of the granting of any licence under the freezing order, that the 2,000,000 dollars should be redeposited by the Japanese. The United States authorities apparently relied on a double argument. The first was that as the Japanese had so much cash they needed no financial licence for the time being. The second was that the money had been withdrawn in 10,000 dollar bills; as these had frequently been used for ransoms in kidnapping cases the United States Government was withdrawing them from internal United States circulation. The Japanese were, of course, unimpressed by both arguments, but the practical result was that all commercial intercourse, including even the movement of shipping between the Americans and Japanese, was brought to a standstill. One Japanese ship bringing a number of United States evacuees refused to enter San Francisco until it was guaranteed a return clearance.

The British and Netherlands Governments were therefore still puzzled as to what United States policy really was. When the British embassy's report of 20th August was given to the Netherlands authorities in London (about the 27th) the latter remarked that they were glad that the United States was taking a strong line, but would be more glad to see a settled United States policy, on which they could all count. A sign that the American pressure was to continue was Hull's concern at a report from a Japanese newspaper

in Singapore that the Bank of England had taken the initiative in suggesting to the Yokohama Specie Bank that arrangements should be made for opening a special clearing account as a preliminary to an extensive barter trade agreement between the Empire and Japan. A statement was published by the British Government on 19th August putting the matter in its right proportions. What had happened was that the Yokohama Specie Bank had asked whether and in what circumstances Japanese assets might be released, and had been told that assets would in no circumstance be released for future trade; the Bank of England had, however, been authorized by the Foreign Office to explain the procedure that would be followed if any future transaction were permitted. This was in accordance with the procedure communicated to Washington and the Empire on 7th August. In a telegram to Washington on 26th August the Foreign Office admitted that the communication to the Yokohama Specie Bank had been a tactical error, but the Bank had now been disabused of the notion that a resumption of trade on a barter basis was contemplated. The State Department was informed confidentially that the only Japanese import which Britain needed urgently was £60,000 worth of magnesium for incendiary bombs.

By the middle of September the State Department had discovered that its administration of the freezing order has become so complete as to amount to a declaration of economic war on Japan; and it decided not to modify its policy. During the fortnight or so which followed the embassy telegram of 20th August the British and Netherlands embassies in Washington (Baron von Boetziar, the Netherlands minister-counsellor, and Mr. Noel Hall primarily) met daily to exchange information, and Noel Hall also saw Acheson almost daily. Then Acheson had a long conference with Hull, followed by a prolonged review of the situation with Noel Hall. From these talks emerged a draft telegram to London in which Hall explained that although U.S. quotas for cotton, petroleum, and other commodities existed on paper the method of administering the freezing order involved in fact a condition of absolute non-intercourse between the United States and Japan. He cleared the text with Acheson and it was his belief later that the reading of the draft was the first occasion on which Acheson saw with full clarity what he and his associates had succeeded in doing. But he told Noel Hall a day or so later that he had gone over the ground again with Hull, and that the policy was to stand. A telegram from the British embassy to the Foreign Office on 13th September gave this momentous news. Mr. Hull had given specific instructions in the last few days that there was to be absolutely no weakening on the economic front against Japan; every device to delay the issue of any financial licence was to be adopted; at the same time there was to be no public

declaration or any alteration in the regulations which would demonstrate the completeness of the embargo. He hoped that the British and Netherlands would keep up as strong a degree of pressure as their circumstances permitted. On 21st September Mr. Eden telegraphed that he was most grateful for this information: hitherto he had been very embarrassed about United States intentions; now he could safely go ahead and secure the complete immobilization of trade, except for certain essential materials to be secured by barter.

By this stage a common policy for all parts of the British Empire had been arranged and it had in practice brought almost all trade with Japan to a standstill. India was allowing exports of cotton only within the limits of the 1940 figures, in so far as they were covered by pre-zero confirmed credits. These credits would shortly be exhausted. Some iron ore and manganese from Japanese mines in Malaya was still being exported, pending an agreement as to joint action with the Philippines. The Dutch had held up all oil shipments from the Netherlands East Indies and were only permitting the export from the Netherlands East Indies of small quantities of other commodities paid for before the Freezing Order. The extent of this trade was small. On 27th September the embassy, after reporting that Hull was highly gratified with this cooperation, emphasized the decisive potentialities of the new economic weapon. The United States had discovered by accident the technique of imposing a total embargo by way of the freezing order without having to take decisions about quotas for particular commodities: it was now in a position, if it wished to do so, to state that the Japanese had imposed the embargo upon themselves by their lack of loyalty to the American freezing regulations. Hull however insisted that the utmost secrecy was necessary; the United States Government would not admit that any connivance with the British Government was taking place.

From this point until Pearl Harbour the position was not substantially altered. The embargo on trade with Japan remained virtually complete. At the beginning of October, Lord Halifax reported that no shipments of cotton from the United States would be possible under the existing administration of the U.S. freezing order. Licences for 159,000 tons of iron ore from the Philippines were not revoked, but the United States Government prevented shipments by administrative delays. A Japanese ship, the *Hakone Maru*, arrived in Manila in November and departed without lifting any iron ore, although it was able to take on a cargo of low grade hemp and copra meal and cake. The hemp had been licensed before the enforcement of export control. Similar action was taken by the Government of the Straits Settlements to prevent exports of iron ore from Malaya. After some weeks of careful inquiries it was decided that of all the imports from Japan put forward by the Empire as

'essential' the only commodity of immediate and vital importance was 1,000 tons of magnesium for incendiary bombs and aircraft construction. The Japanese needed, for the maintenance of their diplomatic and consular staff in the United Kingdom, some £28,000 a month more than the British required for the same purpose in Japan. It had at first been proposed that magnesium should be purchased against asbestos, but on 9th October the Foreign Office proposed to exchange magnesium against the balance required by the Japanese for their diplomatic representation.

The Japanese made a number of attempts to circumvent the freezing orders. There were proposals for barter transactions with British firms, all of which were rejected. It was suspected that the Japanese might attempt to export to the United States and United Kingdom through the medium of a neutral country, particularly Portugal and Portuguese Macao, and a careful watch was kept on this possibility. By October the Japanese were growing increasingly short of foreign exchange; they were already using gold, at least in part, for their expenses in Indo-China, and for their purchases of raw material in that country and Thailand. They were then forced to use gold for their purchases in South America and there were reports that \$9,250,000 worth of gold arrived there in the second half of October. It was known that the quantity of gold available to Japan for supplementing its restricted foreign exchange was not large; estimates as to stocks at the end of September varied between \$117,000,000 and \$150,000,000.

The Japanese naturally retaliated by withholding in Japan and occupied China various consignments of goods destined for the United Kingdom and the Empire, the property in which had, in certain cases, already passed to the British purchasers. In reply the British withheld in various parts of the Empire all Japanese-owned goods destined for Japan which were awaiting export or transshipment licences, but which were unaffected by the freezing order. Details of these British goods were collected during November, but the British bargaining position was poor, for the Japanese-owned goods which the British were withholding in retaliation were many times less valuable than the British goods withheld by the Japanese. It was felt therefore that no particular action could be taken, and the Japanese did in fact release some of the goods—including £200,000 worth of dried eggs—without further intervention on Britain's part.

British economic pressure on Japan, as we have considered in this chapter, had led to increasingly intimate Anglo-American economic cooperation. This cooperation was still not complete, because of the different circumstances in which the two governments approached the problem; but the successful development of parallel policies was

in itself evidence of rapid growth in mutual confidence. There was no agreed plan of action, in the shape of a clear-cut decision accepted by both governments in July; nor does there seem to have been any attempt on the part of the State Department to give the British Government a comprehensive picture and forecast of its future programme in relation to Japan. Hull's conversations in Washington with Nomura continued, and he was reinforced in November by a special ambassador, Saburo Kurusu; these exchanges were known to be the last hope of a peaceful settlement. It was obvious enough to the Foreign Office that the United States Government was banking on the hope or belief—it is not clear which—that the Japanese were bluffing and would not proceed to war unless the Western powers showed weakness. Hornbeck did believe this, and he pressed his views on Noel Hall in a private conversation on 20th October, just before the latter was to leave Washington for a visit to London. Hornbeck was afraid that the military experts in both capitals would frighten the two governments into giving up or mitigating the economic pressure; he did not believe that economic pressure as such would be a decisive weapon against Japan, but he thought that the political consequences of any concession would merely strengthen the war party and make Japan more dangerous.¹ Noel Hall found in London that the Far Eastern Committee and the Planning Committee of the Chiefs of Staff, to whom he reported Hornbeck's views, were very much less optimistic. It was not clear how far Hornbeck's ideas were those of his superiors. The British embassy believed, however, that the President had received conflicting advice; permanent officials in the State Department did not believe that it would be possible just to deal with Germany, and to leave the settlement of accounts with Japan until after the end of the European war, whereas technical and operational advisers took a contrary view. The absence on the British side of a parallel to the United States system of Foreign Funds Control prevented complete synchronization. The Americans were bargaining with the Japanese about the administration of their freezing order and the conditions upon which the hoarded large-denomination notes would be returned to the United States Treasury; the Governments of India and the Netherlands East Indies on the other hand would have been obliged, in order to impose a full blockade, openly to repudiate commercial treaties, including the provisional Japanese-Netherlands agreement of 6th June, which had so recently demonstrated the firmness of the Dutch in resisting Japanese demands. Nevertheless all did in due course come very well into line. Full and frank discussion of all the difficulties—including a special arrangement to supply the State Department very promptly with statistics of current

¹ For the attitude of the U.S. naval authorities see Morison, iii, 62-79.

exports from India—prevented these technical differences from leading to any decline in United States confidence in the basic unity of Anglo-American policy. By November the N.E.I. had virtually stopped trading with Japan; they had imposed a complete embargo on all the more important commodities and fixed maximum quotas for the remainder, for which in any case they proposed to grant export licences only in return for essential imports. They followed the United States lead on petroleum; that is to say, if the United States permitted exports on the 1935-6 basis, they would do the same; if the United States Government continued its embargo, the Netherlands would do likewise. The Free French had cooperated in a similar fashion.

The extent to which this economic pressure caused, or delayed, or hastened Japan's decision to attack the United States and the Allies can finally be decided only after consideration of the many non-economic factors involved in the story of her tragic gambles in aggression; the practical result was the formal entry of the United States into the war, and the alignment of forces with which the economic war was henceforth to be fought. What is incontestable is that the almost complete suspension of exports to Japan from so many vital sources would have compelled her to abandon her whole policy of expansion if she had not been prepared to face the risks of war. After the exhaustion of her existing stocks, surrender to the diplomatic demands which Mr. Hull had put to Nomura and Kurusu would have been inevitable. The working assumption in the Ministry was that Japan still had the reserves necessary for about twelve months of serious warfare. Some of the more specific estimates are worth noting. The following figures are derived from a paper drawn up by the Enemy Resources Department of the Ministry and dated 2nd August 1941.

*Japanese Stocks*¹
(metric tons)

<i>Commodity</i>	<i>Tons</i>	<i>Months' supply</i>
Nickel	2/3,000	3
Zinc	80/100,000	12
Lead	100,000	12
Antimony	2/3,000	6
Wolfram	5/6,000	12
Mercury	2,000,000 lbs.	24
Tin	4,500	8
Copper	200,000	12
Aluminium	25,000 plus 300,000 of bauxite	18
Cobalt	700	30
Chrome	120,000	24

¹ The best source for post-war verification of these and similar figures is *The United States Strategic Bombing Survey*, in this case the volume entitled *Coals and Metals in Japanese War Economy* (April 1947). It includes the following tonnage for stocks in December 1941: zinc, 26,000 (5 months' supply); lead, 100,000; tin, 7,000; bauxite, 254,740.

The Ministry estimated the Japanese oil stocks at between 5,400,000 and 6,700,000 tons on 22nd November 1941, a decrease of 800,000 tons since April 1941; and at between 4,681,000 and 5,361,000 tons on 1st January 1942. United States estimates at the time were very much higher—10,070,000 tons in December 1941 (75,533,000 barrels).¹

For the time being there was no thought of serious blockade pressure on Japan; the immediate problem was one of fighting retreat as the Japanese forces swept forward to occupy one Allied position after another. This phase ran from December 1941 until the battle of Midway in June 1942. There followed a 'holding' phase, during which the Allies could do no more than set limits to Japanese advance and prepare for a comprehensive counter-attack; then the final offensives came in 1944 and 1945. Nevertheless, the Allies did not lose sight at any time of the economic vulnerability of Japan, and her susceptibility to blockade. As soon as the United States entered the war her submarines began their attack on the Japanese-controlled merchant shipping; 484,000 tons were sunk, mainly by Allied submarines, between December 1941 and October 1942. In 1943 and 1944, as the Allied advance brought shipping targets more and more within bombing range, air power played an increasing part in these attacks, although the United States submarine was throughout the war the chief blockade weapon in the Pacific. The economic-warfare problem was an infinitely simpler one here than in Europe; in the Pacific area there was virtually no neutral screen, and the enemy could not exist for long without his overseas supplies. The Soviet Union, and its satellite state, Outer Mongolia, were certainly neutrals, but the amount of trade between Siberia and Manchuria was apparently slight; so too in all probability was the benefit which the Axis drew from the continuance of the postal service across Siberia. The Soviet Union's unwillingness to interrupt this service, which made it possible for letters to pass between Germany and Japan through Swedish, Swiss, and Turkish intermediaries, was no doubt due mainly to its desire to maintain correct relations with the Japanese, although it was also evidence that the Russians were never really 'blockade-conscious'. If the Russians censored these letters the results were not passed on to the British. There was also regular and almost uninterrupted trade between large areas of Free and Occupied China, where warfare was quiescent for long periods. Both parties benefited from this, and it would have been difficult for the Chungking Government to do without

¹ The U.S.S.B.S. virtually confirms the British estimate; it placed the stockpile at 5,690,000 tons (42,696,000 barrels) in December 1941. It had fallen to 6,434,000 barrels by December 1944. *The Effects of Strategic Bombing on Japan's War Economy* (December 1946), pp. 79-80; and *Oil in Japan's War* (February 1946), pp. 11-16.

this degree of relief of its desperate shortages.¹ But these were minor exceptions. In the Pacific area, far more than in Europe, the softening-up function of maritime blockade might ensure the substance of victory. In the end, Japan was brought to unconditional surrender without an invasion of her home islands, and after devastating and expensive air attack; there seems every reason to think that the same result could have been achieved more economically by blockade alone.²

¹ D. L. Gordon and R. Dangerfield, *The Hidden Weapon*, pp. 55-6, 138-41.

² The later developments are sketched in chapter XIII (pp. 401-8). Economic-warfare operations in the Pacific were mainly an American interest after Pearl Harbour.

CHAPTER IV

LISTING AND PRE-EMPTION IN LATIN AMERICA

IN her negotiations with Japan the United States had first revealed the obstructive possibilities of her new weapons of economic warfare. In Latin America she was to find the typical field for their more positive employment. Her concern for the military and political safety of the southern continent was combined with the benevolent aspirations of the Good Neighbour policy, and with the development of a vast purchasing programme which would aid the United Nations while satisfying many Latin American needs. But Latin America as a whole did not swing into battle against the Axis with the whole-hearted zeal of the United States, and while 'economic defense' could after Pearl Harbour be re-labelled 'economic warfare' without reservations north of the Rio Grande, in the south the emphasis had still to be placed on Hemisphere defence. The United States Government was more than willing to handle these delicate and at times exasperating problems. Latin America was thus the second field in which its distinctive economic-warfare weapons were employed, although they could not always be reconciled with British blockade practice.

(i)

Hemisphere Defence

The vulnerability of Latin America, from the viewpoint of the experts in Washington, was the result of a complex of circumstances which varied in importance in different areas. In this period of the war there were moments of genuine apprehension at the danger of military attack on the immensely long and virtually undefended coastlines, particularly in Argentina, Chile, and Brazil. These apprehensions naturally reached their height in the months following the Pearl Harbour disaster, when the Chilean Government did not fail to call attention to its 3,000 miles of defenceless and indeed undefendable coast, and Mr. Sumner Welles went to Rio in January 1942 convinced that there was nothing to prevent a Japanese landing

anywhere between Canada and Chile.¹ American anxieties were no doubt due in part to the unacknowledged impracticalities of the Pan-American idea, which presupposed a degree of unity in sentiment and interests and even geography which did not really exist. It had been easy enough to agree to the 300-mile safety belt of the Panama conference,² but less easy to decide what to do if the belligerents chose to violate this unilateral ban on their belligerent rights. Brazil had the largest army, Argentina the best equipped air force, but the total land, sea, and air resources of the continent were not impressive; the ten South American republics had about 290,000 men actually serving in April 1941, and a very small number of battleships, cruisers, and coastal defence vessels. While Argentina resented the British bases in the Falkland Islands and objected to proposals for Uruguayan defence works on the river Plate, she also found the idea of United States assistance or interference in defence measures in the southern part of the continent highly distasteful; nevertheless plans for cooperation in defence between the states of the river Plate area had not gone very far. To the State Department however a greater danger than direct military attack appeared to be that of subversive movements coming directly or indirectly from the German, Italian, and Japanese minorities, although it was believed that the Italians had, on the whole, been too well assimilated to cause any real difficulties. But there were large German colonies in Chile, Argentina, and particularly Brazil, and the Nazi organizations were known to have a firm hold on the younger Germans and the more recent settlers.

There was a third source of danger in the economic circumstances of those Latin American countries which depended on European markets, or whose economy had suffered from the war. Plans were discussed at the Havana conference in July 1940 for the setting up of a Western Hemisphere cartel to purchase surplus stocks resulting from the war, but these proved impracticable.

The countries which were most severely hit were naturally those which had had a substantial trade with continental Europe. The 1938 percentages of exports are shown in the table on the following page.³ Approximately 25 per cent. of Latin American trade had been cut off by the blockade of countries in German occupation after the fall of France. On the other hand United States imports from Latin America had probably increased in value by approximately the same amount during 1940; the increase had not, however, for the most part benefited the areas with the greatest losses. The dangers

¹ Sumner Welles, *Seven Major Decisions* (Hamish Hamilton, London, 1951), p. 103; more generally, *The Time for Decision* (Harper & Brothers, New York, 1944), pp. 210-41.

² Cf. E.B., i, 331.

³ Based on a similar table in the *Bulletin of International News*, vol. xviii, no. 7, p. 401.

Latin America
Destination of Exports, 1938

<i>Exporting country</i>	<i>United Kingdom</i>	<i>Other European Countries (excluding U.S.S.R.)</i>	<i>United States & Canada</i>	<i>Other Western Hemisphere Countries</i>
Argentina	31.8	39.0	8.6	12.0
Bolivia	62.5	28.0	4.7	4.2
Brazil	8.8	41.0	34.6	7.0
Chile	21.8	32.0	16.0	5.0
Colombia	0.4	22.0	60.0	2.0
Costa Rica	24.4	23.0	46.0	3.0
Cuba	13.7	6.5	76.2	2.0
Dominican R. . . .	40.0	14.0	35.0	7.0
Ecuador	4.7	32.0	37.7	15.0
Guatemala	0.3	23.0	70.0	5.0
Haiti	13.6	36.0	43.0	3.0
Honduras	1.9	7.0	86.5	4.2
Mexico	9.4	18.0	67.4	2.0
Nicaragua	2.3	23.0	68.0	3.5
Panama	1.0	4.0	89.3	5.0
Paraguay	13.0	24.0	13.0	49.5
Peru	20.0	24.0	31.7	20.0
Salvador	1.4	29.0	61.9	3.0
Uruguay	26.1	43.0	4.3	22.0
Venezuela	22.3	29.7	28.1	12.8

of the situation from the point of view of the blockade were obvious enough; there was a continued incentive to trade with the enemy, and although the navicert system and the additions to it after the fall of France were acquiesced in, there was obvious dissatisfaction in many Latin American countries with the restrictions of trade. Interception could not be applied in the Pacific, and the ban of the United States on interception in the Caribbean largely frustrated British attempts to limit trade with Japan.¹

But although the public, and even the official world, in the United States seemed curiously blind to the seriousness of these leaks in the blockade they were quick to sense danger in other political and economic machinations of Axis sympathizers, and it was through an investigation of the activities of these concealed foemen that the Administration was able to commend the need for Hemisphere Defence to both the American continents. The policy of Hemisphere Defence had been given publicity and direction by the establishment on 16th August 1940 of the Office for Coordination of Commercial and Cultural Relations between the American Republics. This was a subordinate body to the Council of National Defense and Mr. Nelson A. Rockefeller was appointed the first 'Coordinator'. The terms of reference of the new office were wide, and in some directions

¹ E.B., i, 494-5.

vague; the Coordinator was to act as liaison between all government bodies in the United States concerned with the cultural and commercial aspects of Hemisphere Defence, and was responsible directly to the President. On 4th October 1940 Mr. William L. Clayton was appointed Director of the Division of Commodities and Natural Resources, but shortly afterwards he accepted the position of Deputy Federal Loan Administrator to assist Mr. Jesse H. Jones. Clayton was thus closely concerned with the administration of a fund of \$500,000,000 for aid to Latin America which had been provided in the Export-Import Bank Act, which was the main instrument of United States economic policy in Latin America. Shortly after the establishment of the Office a mission was dispatched to Central and South America to make a comprehensive survey in cooperation with United States foreign services officers; in the meantime the question of Nazi influence had been well ventilated in the American Press. On 8th January 1941 Rockefeller made an important statement to the press on the findings of the mission, which had reported that while the majority of United States exporting firms were not represented in Central and South America by agents with non-American connexions, there were a sufficient number of these to make them a serious concern from a defence point of view. These non-American agents frequently supported and promoted anti-American objectives, obtained confidential trade information from North American firms, used their funds to finance propaganda activities, and were sometimes officials of 'anti-American' powers.¹

Although the plans of Mr. Sumner Welles for a large-scale purchasing programme in Latin America were intended to counter these activities while satisfying the need of the United States for rearmament supplies, they were also, at least in part, an attempt to meet the British complaints about the Caribbean position. His proposals, as he expounded them to Lord Halifax on 19th February 1941, were put in the first instance to the governments of Argentina, Uruguay, Brazil, Venezuela, and Colombia; they provided for the setting-up of export licence systems by the Latin American states in the interest of the blockade, backed by pre-emptive purchases by the United States Government. Brazil had introduced an export licence system just before the American approach, but during the next few weeks she granted licences to German firms for rubber, which was the one thing above all that the Ministry wished to prevent. The plan was one of the first affirmations of United States faith in control at source as a substitute for blockade, and the Ministry recognized that it must try to secure British economic-warfare ends in Latin America by the same means, although it was not convinced of their adequacy.

¹ Cf. above, p. 33.

Its programme for Latin America was summarized in March 1941 as follows:

- (a) Government export licensing used to support the blockade, backed by
- (b) Pre-emption by United States Government and ourselves
- (c) Cooperation with friendly firms (but the Statutory Listers will always ship)
- (d) Cooperation with friendly shipping firms to refuse objectionable consignments, but Japanese and Soviet ships of course will not play
- (e) Other steps to reduce tonnage available to the Far East
- (f) Offensive action against hostile firms, i.e. Statutory Listing.

If with the assistance of the United States Government, (a) and (b), could be secured with the backing of (c) to (f) the British position would certainly be immensely strengthened, but the Ministry knew only too well that as yet the United States had no organization for purchases, and that the resistance of the South American states to the cutting off of their Pacific trade would obviously be very strong in some cases. Very substantial purchases would be necessary to make it worth their while to cooperate in the restriction of export to Axis countries, and time was desperately short. The Ministry was accordingly convinced (as was also the British embassy at Buenos Aires), that whatever other methods were adopted, some effective sanction against undesirable shipments was essential. If interception were out of the question it hoped to persuade the United States to support a system of bunker control to back the warrant system. In this it was unsuccessful, but after March the United States Government did greatly strengthen one part of the British programme by its elaborate plans for bringing all surplus tonnage in the Hemisphere into Anglo-American service.¹

Other developments during the summer showed, moreover, that in its unorthodox way the United States Government was meeting many of the needs of the blockade. The closing of the Panama Canal to Japanese shipping at the end of July virtually ended the problem of shipments from the east coast ports of Latin America,² and the purchasing programme was also getting under weigh. The difficulties that it faced were partly due, as we have seen, to the absence of any United States agency similar to the United Kingdom Commercial Corporation, authorized to buy at inflated prices in the Latin American market.³ Nevertheless the United States preclusive pur-

¹ See pp. 30-1 above.

² See p. 112 above.

³ This led to the administrative crisis of April 1942, and continued struggle between the R.F.C. and B.E.W. (see pp. 54-6 above).

chasing policy in Latin America was beginning to develop, during the second half of 1941, into a really formidable weapon of economic warfare or defence, and the Ministry watched this development with, of course, a considerable sense of relief.

(ii)

Preclusion and pre-emption, 1941

Before it had been known how far the United States would take over Latin American purchases, a British programme of pre-emption had been drawn up, and the Ministry secured approval of this programme in May 1941. Pre-emptive purchases continued in accordance with this authorization until the end of the year, but it became increasingly clear during this period that when the United States plans were fully launched the British Government would be able to reduce, and perhaps abandon altogether, its pre-emptive policy in the Latin American field.

Details were received in London in mid-June 1941 of the United States-Brazilian agreement which had been concluded in Rio de Janeiro on 14th May for two years, and which came into force on 12th June. The principle of the agreement was that all Brazilian exports of the commodities which it covered were to be confined to the United States and Western Hemisphere countries which had parallel licensing systems. The commodities in question were bauxite, beryl ores, chromite, ferro-nickel, industrial diamonds, manganese, mica, quartz, rubber, titanium (rutile), and zirconium. Other commodities could be added later. A U.S.-Mexican agreement of 15th July, for a period of 18 months, followed,¹ and on the same day the Mexican Government published a decree limiting exports of the following commodities to countries in the Western Hemisphere with 'parallel' licensing systems: (a) sisal, ixtl, pita, and kindred fibres and products thereof; (b) antimony, arsenic, bismuth, cadmium, zinc, molybdenum, lead, tungsten, and vanadium, whether in the form of ore, concentrates, or refined metal. The decree took effect from the date of publication, and supplies to Japan were apparently cut off at once. By the end of July 1941 three separate forms for U.S. agreements with Latin American countries had, according to the British embassy's information, been adopted. The first, which the United States Government favoured, provided that it would make purchases of a given commodity up to a given number of tons whenever the price fell to an agreed minimum,

¹ It was superseded by a new agreement on 29th April, 1942. There were also agreements with Peru (29th September 1941 for one year), and Chile (26th January 1942 for 18 months).

which was fixed after negotiation at something below the market price then ruling. In this way it was hoped that official government purchases would not compete with commercial purchases, either United States or British, since the United States Government would not enter the market until the satisfaction of the commercial demand had led to a cessation of commercial buying and a consequent fall in the price. The agreement with Brazil was on these lines. The second provided that the United States Government would buy the total production of a given commodity at an agreed price. This method had to be used in cases where there was not a free enough market to establish a 'market price'. It had been adopted for Bolivian wolfram, and was contemplated in other cases. The third provided that the United States Government would buy (presumably up to the quantities offered, but with a total ceiling) for each week at the market price ruling for the previous week. It had so far been adopted only in Mexico and as it had obvious disadvantages it was hoped that it would not be necessary to extend it to other countries. Clearly its administration would be a formidable task, especially where there was no commercial buying or bidding.

These agreements gave rise to a number of problems affecting British supplies. Thus it was now necessary for any such exports for the United Kingdom, or other British destinations outside the Western Hemisphere, to be shipped in the first instance to a nominal consignee in the United States, who would then forward them to the requisite destinations. These, however, were problems outside the economic-warfare sphere (in the British definition of the term); from the point of view of the economic blockade, the supply complications and the American purchasing programme generally meant that the chances of strategic materials reaching Germany by any route were being progressively reduced. Indeed, by the end of July 1941 the British Government, after arranging for the purchase of the main Peruvian molybdenum production for 1942, had already decided that the extension of the United States purchasing programme made it possible to limit the purely pre-emptive British purchases to the buying of wool in Brazil, Uruguay, Chile, and Peru. The British purchases for supply of course continued, and often served a pre-emptive and 'political' purpose. On this basis a number of plans of joint, or coordinated, Anglo-American purchases were developed.

During June the Americans were given details of the full United Kingdom programme of purchases from Argentina in the third year of war; a joint Anglo-American approach was suggested with a view to persuading the Argentine Government to set up control by export licensing over the main Argentine products of economic-warfare value (chiefly wool, quebracho, and hides). It appeared that the

United States Government was now ready to buy all the Argentine mineral production and substantial quantities of wool, hides, quebracho, glycerine, and possibly casein in addition to the normal United States commercial takings. It proved difficult for some weeks to synchronize British and American action, for the British purchase negotiations, especially for meat, had not reached a point at which it was convenient to reveal the rest of the British programme.

The United States purchasing proposals were given to the Argentine Central Bank on 2nd July, without any previous consultation with the British, whose own programme was not given to the Argentine Government until the beginning of September. After this, however, it was the obduracy of the Argentine Government which prevented rapid progress. U.S. and British memoranda on 8th and 9th September referred to the United Kingdom's purchasing programme of about £42-£44 million, and repeated the request made on 2nd July for export control of products covered by the U.K.-U.S. programme so as to deny them to countries other than the U.S.A., the British Empire, and other American Republics having similar systems of export control. On 8th October the Argentine Government agreed to impose export control, but made counter-demands which the other two governments thought excessive. As a result no substantial progress was made for the remainder of the year 1941. The Argentine Government made four main requests. (1) That in view of the growing balance of blocked sterling, expected to reach £20,000,000 at the end of the third year of war, Great Britain should agree that all excess sterling over a certain amount should be either converted into dollars, or be available for the redemption of the Argentine National Debt; (2) that the U.K. and U.S.A. should buy a greater variety of Argentine products, especially agricultural; (3) that purchases should not be conditional on the availability of shipping space; and (4) that exports of small quantities to countries that supplied Argentina with essential imports should still be permitted.

The British Government was not able to modify its use of sterling as a basis for purchases. The last condition clearly referred to items such as 6,000 tons of wool which Argentina had undertaken to deliver annually to Japan under the Japan-Argentine Commercial Agreement. On 12th November Sir Esmond Ovey was instructed to explain that the British purchases were already so heavy that they could not be increased without adding to the payment difficulties to which the Argentine Government had itself drawn attention. But he was also authorized to say that if shipping conditions became more difficult the British Government would be prepared to store certain of their more important purchases. The State Department replied in a note which made no reference to the sterling position,

but pointed out that to the programme originally communicated in July it had since added 380,000 tons of linseed, 23,000 tons of casein, and the exportable surplus of cotton linters; it also promised all possible assistance in supplying Argentina's own essential requirements when the proposed purchases agreement had been completed. But little progress was made during November, and the United States ambassador at Buenos Aires was reported to have shown strong resentment at the Argentine Government's delays.

In certain other cases the U.S. purchasing programme was not sufficient to secure the complete denial of strategic material to the Axis. Hard bargaining followed. The British contribution took mainly the form of the pre-emption of wool in order to underwrite American purchases. The British plan in July had been to offer to buy all surplus wool available up to a stated maximum if the price fell below an agreed minimum, which would be slightly below the existing market price. The governments concerned were to agree in return to subject wool to export licence control and to refuse licences to Axis destinations. During August plans on these lines were discussed in Washington with a representative of the Wool Control. It was agreed that the British should 'stand behind the market' in Chile, Uruguay, Brazil, and Peru, that is, that they should buy at agreed prices any surplus not disposed of to safe destinations; this would mean in practice buying such of the coarser wools as were not required by the United States. The cost, in view of the large United States consumption, was not expected to exceed £1,500,000. In Chile the State Department had asked the British in July to use their proposed purchase of Chilean wool as an additional inducement to Chile to use its recently established export licence system for the complete denial of strategic material to the Axis. The sum required—upwards of £2,000,000 for the purchase of 10,000 tons of wool—was very large in view of the restrictions of U.K. exports to Latin America which would now be necessary. The Treasury at first agreed, but later the British offer was reduced, in view of the increasingly unfavourable payments position, to the purchase of 4,500,000 lbs., and an expenditure of £300,000. On 4th September the United States Government, in accordance with an undertaking of a year earlier, decided to underwrite the Uruguayan wool clip, thereby relieving the British Government of what was potentially the most onerous burden in its pre-emption programme, for the Uruguayan currency was now an exceedingly hard one. This reduced the estimated British expenditure on wool for pre-emptive purposes to £540,000.

British underwriting offers for wool were made during October to Peru (up to a maximum amount of 2,000 tons) and in November to Brazil, where the British Government, after first fixing a maximum

of 2,500 tons, agreed to underwrite any part of the Brazilian wool clip which was not required by the U.S.A. or by any other American republic having a form of export control approved by the State Department. During November Peru showed great reluctance to impose any prohibition on exports of wool to Japan, but the British Government continued to press for the acceptance of its offer to underwrite the exportable surplus up to 2,000 tons, in return for export control.

During August, September, and October the State Department's mineral negotiations with Chile also made little progress. Discussion began towards the end of August between representatives of the U.S. Federal Loan Agency and Metal Reserve Corporation and the Chilean Caja de Credito Minero and Corporacion de Femento. The U.S. representatives offered to buy copper, manganese, cobalt, mercury, molybdenum, and lead, but a Chilean proposal to put an export tax on copper brought about a temporary deadlock. By October it seemed clear that Chile was deliberately drawing out the negotiations in order to secure Japanese offers which could be used as bargaining counters. Thus the American ambassador was told during informal talks that a barter deal of a Japanese tanker full of oil against Chilean minerals was under consideration; a certain proportion of the oil was to be reserved as bunkers for Japanese ships. The State Department was apparently determined not to apply pressure through the imposition of restrictions on export from the States of mining equipment, oil, and other goods required by Chile, although it was clear to both the British and Americans that this might be necessary later. In the meantime the Japanese were actively buying wool in Chile. On 7th November the Federal Loan agent in Chile was authorized to make considerable concessions on prices in order to press the negotiations to a conclusion, but without immediate result.

The British Government's agreement to underwrite the purchase of Chilean wool did not, in these circumstances, greatly help matters. The American ambassador in Santiago in September asked that the British offer should be deferred until the U.S. minerals agreement was concluded, but the State Department preferred joint Anglo-American action, and the British offer was accordingly made. The reception by the Chilean Minister of Commerce was far from favourable; he replied that he could not justify the placing of export restrictions on wool, since high prices were being offered by Japanese interests. If the U.K. and U.S.A. wished to prevent wool going to Japan they should purchase the total Chilean clip. On 7th November the Chilean Ministers of Commerce and the Interior again showed their unwillingness to consider export control of wool so as to deny its sale to Japan, and again pressed for the purchase by the British

Government of the whole clip, which was out of the question in the existing payments position. The British felt they could only agree to the Chilean terms if the United States would take over all wool with which the British might be saddled in excess of £300,000 worth, and during November there was considerable discussion between the relevant departments in London, and between M.E.W. and the British embassy in Washington, as to the exact terms of a communication on these lines. The embassy was reluctant to break the news to the Americans that owing to the decline of British purchasing powers in Chile the British could not deal with the Chilean wool problem single-handed. But as it happened the delay was no bad thing; with Pearl Harbour Chile lost its chance of selling anything to the Japanese.

(iii)

Listing problems, 1941

The informal and partly concealed collaboration of Great Britain and the United States in Latin America led to executive differences in the field of blacklisting policy which were not resolved until after the entry of the United States into the war, and even then only after preliminary arguments. These arose in the main from the differences in the origin and purpose of the two lists. We have seen that a considerable storm had blown up in the United States in the summer of 1941 over the alleged favouring of private British interests in South America through the manipulation of the Statutory Lists.¹ By July 1941 the Ministry and the Board of Trade were fully awake to the fact that although these accusations were unjustified they were nevertheless plausible, and that it was necessary to modify British practices in order to facilitate American activity in this field. Yet reconciliation was not altogether easy. Great Britain had issued her lists as a belligerent to prevent trade and to a lesser degree intercourse with states with which she was at war; she could therefore rely on her belligerent rights, and on the other hand could be handicapped by Latin America states which chose to obstruct her policy in the name of their own neutrality. The first United States lists had been issued when the country was not yet a belligerent, and their purpose was national defence. National defence and Hemisphere defence were declared to be one and indivisible, and the State Department could present its action to sensitive Latin Americans in a more sympathetic light than the British were able to do; on the other hand the need to retain the support of the South American Governments imposed

¹ See pp. 34-5 above.

corresponding limits on United States freedom of action. As far as United States opinion was concerned it was still highly important until the end of 1941 to avoid the accusation that the United States Government was taking the initiative in attacking the Axis, accusations which would certainly have been heard if a policy identical with that of Great Britain had been adopted. After the freezing of the assets in the United States of all European countries in June 1941 the logical course would have been to freeze all Central and South American assets as well, for these Latin American countries were also providing cloaks for Axis financial activities. But this would have been inconsistent with the political aims of the United States in the Hemisphere, and on the other hand the State Department and Treasury were not prepared at this stage to attempt to secure the imposition of freezing orders by each Hemisphere country. The Proclaimed List of firms which were helping Axis business was the necessary alternative and it was clear that in theory at least it would have to be a consignee list only. The terms of reference given in the President's Proclamation of 17th July 1941 were however so worded as to enable the United States Government to place almost anybody in the world on the list.¹

It could include, under Section I,

- (a) certain persons deemed to be, or to have been, acting or purporting to act, directly or indirectly, for the benefit of, or under the direction of, or under the jurisdiction of, or on behalf of, or in collaboration with Germany or Italy or a national thereof; and
- (b) certain persons to whom, or on whose behalf, or for whose account, the exportation directly or indirectly of any article or material exported from the United States, is deemed to be detrimental to the interest of national defense.

Section 2 said that

Any person, so long as his name appears in such list, shall, for the purpose of Section 5(b) of the Act of October 6, 1917, as amended, and for the purpose of this Proclamation, be deemed to be a national of a foreign country, and shall be treated for all purposes under Executive Order No. 8389, as amended, as though he were a national of Germany or Italy.

The wording of these definitions, and the emphasis that had already been laid in the United States on the necessity of combating political influences, meant that any Axis sympathizer in Latin America might

¹ In a note on the proclaimed list Mr. Noel Hall remarks that 'not all the names on our Black and Statutory Lists were "proclaimed" by the Americans, because until they entered the war as a belligerent, an offence against U.S. freezing orders and not simply trading with the enemy had to be established before a name could be added to the Proclaimed List'. Section I(a) however clearly covered any form of intercourse, commercial or otherwise, with Germany and Italy.

be listed.¹ The Ministry was thus faced with two urgent problems. One was to decide how far British rules for listing and de-listing could be reconciled with those of the United States; the other was to work out a satisfactory machinery for consultation and rapid action so that the lists should be identical at least in those cases in which no difference of principle existed.

The Ministry's first attempt to re-define its position was made in a memorandum of 3rd July 1941 which gave a full statement of the aims of War Trade List policy, together with a detailed analysis of the types of person liable to inclusion. It was now to cover not merely persons controlled from enemy territory, and those doing business with such persons, but also persons who disseminated enemy propaganda, engaged in political or subversive activities in the enemy's interest, or were active members of any enemy organization. This meant that fuller weight was henceforth to be given to political factors as a ground for listing. The memorandum laid great emphasis on the importance of close consultation by British representatives with their Allied colleagues, and, particularly in Latin American cases, with their United States colleagues, but it reaffirmed the view that the interests of the war effort could often be better served by the securing of undertakings and the granting of licences than by the severing of contacts, and a note by the Board of Trade explained the circumstances in which this might be necessary. The memorandum was circulated with a covering letter of 4th July, which was to some extent a post-mortem on the phase of listing policy which had just ended, and which sought to put the problem in its correct proportions. The Ministry had found on a rough check that not more than about ten per cent. of all the cases which had been considered for the War Trade Lists involved British export trade interests. In considering such cases the guiding principle had been to decide how the war effort could best be furthered—if a British trader benefited from the decision this was because an arrangement with the listed firm was considered to be in the best interest of the war effort, not because the war effort was being mitigated in the interest of private trade. 3,964 firms had been placed on the Statutory List up to 26th June 1941 and of these only 72 had been removed after giving undertakings. In Latin America the appropriate figures were 1,414 firms listed, of which only 25 had been removed on giving undertakings.

The Ministry might have added that the evidence on which judgment had to be based was often ambiguous or incomplete, and

¹ E.g. Proclaimed List included the name of Sacramento Marina of Cuba, agent of the Spanish Transatlantic Company. He was a Spaniard, admittedly pro-Franco, but he had always cooperated with the British consul-general in complying with British economic-warfare regulations.

that, particularly in the early stages of the war, it was easy to guess wrong. Such errors might take the form either of over-hasty listing or de-listing, or of over-cautious action while evidence was accumulating, and there were certainly occasions—as in the Berger case—when it could be shown that the trial-and-error process involved in the granting of undertakings had not been justified by results. The main reason for not listing suspected firms in the Americas was, however, the danger of major political repercussions; for this reason no firms in the Philippines or the United States itself could be listed. For the same reason serious offenders like Mitsui and Mitsubishi had to be ignored, for their importance to Japanese economy was such that to list them would have meant a virtual declaration of economic war on Japan itself. Similar considerations applied in the case of certain German firms in Venezuela. In the same way licences to trade with the enemy had sometimes to be granted. It might happen that a refusal to do business would bring a British firm into conflict with the law of a neutral country in which it was doing business, or would provide a handle for the government of that country to expropriate the firm. The position of British oil companies in Chile was a clear example of this difficulty. It might also happen that goods urgently needed for the prosecution of the war could be obtained only from 'enemy' sources. A case in point was that of the General Aniline & Film Corporation and associated firms. These were included in the list of U.S. firms for whose inclusion in the Statutory List M.E.W. had hoped in March 1941 to secure the State Department's acquiescence. Yet one of this group, General Dyestuffs, was supplying dyestuffs to Great Britain and India which were essential to the war effort and which could not be obtained in sufficient quantities elsewhere. Thus if these firms had been placed on the Statutory List it would have been necessary to grant 'Trading with the Enemy' licences on an extensive scale: but this in turn might have caused an outcry in the United States.

The nature of the still unresolved differences between the two governments was shown at the end of August 1941 in the first detailed instructions issued to United States diplomatic and consular officers as to 'procedures and policies' in connexion with listing. Copies of these instructions were not given officially to the British embassy until the following December, but all the essential points had been covered in discussions between the embassy and the State Department in August. Three points were of particular interest to the British. (1) In no event would additions to or deletions from the Proclaimed List be made until the proposed action had been submitted to the U.S. mission concerned for its final approval. Although the Ministry had always attached due weight to the recommendations of British missions it had not hesitated to override them where

it thought necessary. (2) The U.S. memorandum contained an emphatic self-denying statement:

. . . the Proclaimed List and the related controls of trade and financial transactions are designed for the protection of this country and of other American Republics; the list is not to be used to place the handling of American products solely or principally in American hands and it will not be administered to serve selfish or acquisitive trade ends (Section IV(B)).

This did not rule out favours to persons in the United States and South America for 'political' reasons; but the general principle was followed throughout the war. (3) The memorandum referred to the instructions which had been sent to British missions to establish close cooperation with the Americans in Washington and 'in the field'; U.S. missions were also to maintain close contact for the purpose of establishing free and full exchanges of information and views on individual cases. But

In line with the Department's general policy of not acting jointly with the British on matters pertaining to the other American Republics care should be exercised that such cooperation is not in the nature of joint action. Moreover, such cooperation should be carried on in such a way as to avoid giving the impression to firms or to the government to which you are accredited that joint action is involved in such matters. For example, the Department considers it inadvisable that these matters should be discussed with a firm in a joint interview with the British.

Meetings between representatives of the State Department and the War Trade Department of the British embassy on general listing policy began on 8th August 1941. The British felt difficulty in accepting some of the elaborate American definitions of delinquencies which would justify listing (such as attendance at Nazi party meetings, contribution to party funds, and so on); the Americans, while recognizing that a good case could be made out for undertakings, doubted whether they would be able to use anything quite so comprehensive or to employ the procedure for obtaining a bond. Nevertheless by the end of September agreement was reached on the broader principles of listing policy, and the Ministry's memorandum of 3rd July was revised in the light of these discussions, and circulated to the British missions on 15th October. But so far the State Department had failed to arrange for adequate discussion of individual cases, although it had asked for full information about all firms on the British Statutory List—a request which the Ministry found it impossible to meet in view of the great practical difficulties of copying and extra staffing which would have been involved. The Ministry instead made an attempt to assert the claims of London as the head-

quarters of listing policy, with an American representative fully briefed and qualified to make recommendations to Washington. There was much to be said for this arrangement in view of the Ministry's admittedly greater experience and, at this stage, vastly greater records, but all the considerations which gave the United States its leadership in Pan-American affairs ruled out such a solution. The decision of the Black List Committee on 2nd October to put on the Statutory List every Proclaimed List name not already there meant in effect the acceptance of the American view that the coordination of listing policy, at any rate for Latin America, must take place in Washington. After this, during October and November, detailed procedures were examined to ensure that no item in any issue of either country's lists would come as a surprise to the other. A good deal had still to be done after Pearl Harbour.

(iv)

The Rio Conference

As a full belligerent the United States Government at once sought to bring the Latin American states fully into line with its policy of eliminating from the Western Hemisphere all commercial and financial activities beneficial to the Axis. Particulars of its own measures were sent to them on 15th December 1941, and they were asked to take similar financial and economic steps to combat Axis economic activities. More specifically the United States representatives were to propose, subject to local conditions, measures to secure the following objectives:

1. the stoppage of all transactions of a trade, financial, or business nature (a) between the local country and Japan, Italy, or Germany, or (b) carried on for the benefit of, or by, firms or individuals owned or controlled by an Axis power, or a national of any such power not resident in the Western Hemisphere, or (c) by agents of Axis powers or their nationals if such transactions would endanger Hemisphere defence;
2. government supervision of all local transactions of a trade, financial, or business nature carried on by German, Italian, or Japanese nationals;
3. the arrest of all German, Italian, or Japanese nationals carrying on activities dangerous to the defence of the Western Hemisphere.

This appeal was based on the declaration of solidarity between the American republics made in Article 15 of the convention of the Conference at Havana on 30th July 1940. The State Department intended that the discussion of plans to achieve these objectives

should play a large part in the Pan-American conference which was to open at Rio on 15th January 1942, with Mr. Sumner Welles as leader of the United States' delegation. It hoped that the conference would agree to the establishment of a uniform system of export licence control, failing which it would press for the extension of preclusive agreements on the lines of those already negotiated.

On the eve of the conference the economic-warfare measures—mostly of a financial character—already carried out by the Latin American countries could nevertheless be regarded only as disappointing. Their attitudes ranged from declarations of war against the Axis powers by all the Caribbean and Central American states, and a breach of relations with them by Mexico, Colombia, and Venezuela, to simple declarations of solidarity with the United States by certain South American countries. The most effective action had been taken by those states in or near Central America who were actually at war, although even there many loopholes remained. Chile and Paraguay had done nothing; Argentina had done no more than block the external movement of Japanese funds and securities; Peru also had not gone beyond the freezing of Japanese assets and the control of exports to Japan. Brazil, on the other hand, had announced that Axis blockade runners would not be allowed to leave Brazilian ports, had made the financial operations of non-Americans subject to prior permission by the Bank of Brazil, and had installed controllers in German, Italian, French, and Japanese banks. Similar measures against German, Italian, and Japanese funds had been taken by Bolivia, Uruguay, and Venezuela, and in Colombia the President had received extraordinary powers to carry out economic measures necessitated by the extension of the war.

The Ministry was still of the opinion that the State Department had too much faith in preclusive agreements and laid too little stress on the physical aspects of contraband control. Nor did it share the cautious optimism of Mr. Sumner Welles, who told Lord Halifax on 27th December 1941 that he expected the conference to be in favour of the kind of action that was desired by the Allies, and thought that the Argentine Government would not relish the prospect of being in a minority of one. In a telegram to Washington of 1st January 1942 the Ministry classified the British economic-warfare objectives broadly under the three headings of commodities, finance, and economic intelligence. The need for full and systematized information under the last head was obvious enough; the Ministry's aim was to find out everything it could about economic activities and conditions in German Europe and in the Japanese territories in the Far East, and also in countries bordering those areas; some of the South American countries with important links—official, commercial, and otherwise—with these areas would no doubt have

information to contribute. However, the Ministry did not expect any very great contribution from this source. Its aim in finance was to deprive the enemy of his financial assets in Latin America or at least secure their immobilization; it assumed—quite rightly—that the United States Government was fully alive to the importance of this, but called attention to the desirability of the freezing of neutral assets in Latin America after the U.S. model. Its main proposals were in connexion with commodity control. Valuable as purchasing agreements and the additional safeguard of export licence control were, the usefulness of the system would obviously be impaired if each commodity to be subjected to licence must first be the object of lengthy purchasing negotiations. Nor would these arrangements cover every commodity of value to the enemy, and the Ministry strongly supported the idea of a uniform export licence system covering all commodities. It also emphasized the value (to which the State Department was thought not to be sufficiently alive) of shipping control methods, which would become even more important if the uniform export licensing system failed to appear. The aim should be to persuade the Latin American Governments to agree (1) to refuse bunkers and clearance to enemy and listed ships; (2) to refuse bunkers and clearance to ships sailing to the navicert area without ship navicerts; (3) to refer to the United States or British missions requests for bunkers and clearance for vessels without ship warrants sailing outside the American continent. The telegram pointed out that refusal of clearance, although a far more drastic sanction than the denial of bunkers, would be necessary: the denial of bunkers to objectionable ships might not be enough if the Japanese established bunkering stations in the Pacific. The telegram also showed some concern lest the Latin American countries should be so obsessed with the Pan-American idea as to make difficulties about facilities for the British and their non-American allies.

The Rio conference did not adopt any of the detailed measures of economic warfare desired by the Ministry. The United States Government considered that it would be impossible to secure more from the conference than general recommendations which could be followed up by representations to the individual countries concerned. The British played no part in the proceedings and indeed were privately informed that Mr. Welles was anxious to avoid the risk of criticism because of a too close association with the British at this stage. Sir Noel Charles's contacts with him were limited to an exchange of compliments upon his arrival at the airport, and a chance meeting at a banquet. The official proceedings of the conference avoided mention of the war effort of the British Empire and its Allies, no doubt on the argument that the meeting was concerned only with the affairs of the peoples of the Hemisphere. Nevertheless

the United States delegation argued that most of the Ministry's desiderata had been woven into the fabric of the main general resolutions of the conference, and that the general financial resolutions went much further than had originally been expected. The principal achievement was the recommendation to all the states to break off all commercial and economic relations, either direct or indirect, with the Axis Powers and to take measures to eliminate all other financial and commercial activities prejudicial to the welfare and security of the American republics (Resolution V). The Argentine delegation, however, added a reservation the effect of which was to place the United Kingdom and its non-American Allies in a position similar in all respects to that of the Axis Powers, and this was in line with its general policy of strict neutrality. The crisis of the conference came on 23rd January and was resolved when Mr. Welles, in the interests of unanimity, accepted a watered-down formula under which the American republics merely recommended to each other the rupture of diplomatic relations with Germany, Italy, and Japan, instead of affirming their decision to do so. The resisters were Chile and Argentina, and the decision to prefer the watered-down resolution and unanimity to the stronger formula, which could have been carried by 19 votes to 2, infuriated Mr. Cordell Hull and contributed to his illness after the conference. Mr. Welles had, however, the backing of the President.¹

The outcome of the conference in its economic-warfare aspects was therefore that the enemy should not be able to draw supplies from any Latin American countries except Argentina and Chile, and that in all the other countries action might be expected against Axis economic interests. It remained to be seen whether Japan or Germany would be able to send any blockade runners to Chile or Argentina, and apprehension about Japanese moves was lively for some months. It did not begin to dissolve until the victory of Midway in June 1942. Before the Rio conference the Japanese had boasted that their convoys would shortly reach the west coast of South America. From a secret source the British Foreign Office learnt that on 19th December 1941 the Japanese minister in Santiago had been informed from Tokyo that the Japanese Government expected soon to secure command of the sea in the South Pacific and that Japanese trade with South America, especially Chile and Peru, would then return to normal. They would send convoys with Japanese goods in return for which purchases of 'copper and nitre etc.' would be made. A similar report was sent by the Chilean

¹ O. Edmund Smith, *Tankee Diplomacy: U.S. Intervention in Argentina* (Arnold Foundation Studies, Dallas, 1953), is a useful sketch, embodying recent published material, especially pp. 51-65. See also Welles, *Seven Major Decisions*, pp. 118-25; *The Memoirs of Cordell Hull* (1948), ii, 1146-50. Mr. Hull did not regain strength enough to return to his office until 20th April.

minister at Tokyo to Santiago on 3rd January 1942. It was obvious that both blockade and supply problems in South America would be immensely complicated by the arrival of even one or two Japanese ships in South American ports. The Japanese did not, in fact, succeed in these plans, but they added to the uncertainty of the situation during the first half of 1942. The Ministry therefore had to ask itself whether its assumption that pre-emption could be abandoned had not been premature, and whether the campaign would not again be needed, at least in Chile, to keep supplies out of enemy hands. The United States authorities still did not appear to be very ready to discuss the prospects of a successful interception of Japanese ships, and it was difficult to decide what real chance there was that Japanese convoys could get through. What was certain was that the British Admiralty could do nothing to help, and that it would be necessary to rely entirely on the Americans.

Apart from this problem however the general intention of the United States Government after the Rio conference was to avoid punitive measures against the two non-cooperative states and to allow them to draw their own conclusions as to the disadvantages of isolation. This applied particularly in the case of Argentina, whose policy seemed to be due less to the imperative argument of an undefended coastline than to a desire to challenge the leadership of the United States. The latter's first move was to suspend its South American pre-emption operations pending the result of the conference. Afterwards, when the sheep had been in some measure separated from the goats, and it seemed likely that it would be necessary to resume negotiations for the setting up of individual export licensing systems in the various Latin American countries, it decided to try to secure this object not by offering high prices but by being less accommodating in the granting of licences for exports from the United States and priorities for supplies. In other Latin American countries some 'political' purchases might be required, to compensate for lost markets, but the great and growing importance of Latin America as a vital source of supplies to the Allies could be expected to provide adequate markets for almost all Latin American products except the major agricultural surpluses, such as wheat, maize, linseed, cotton, and coffee. The real problem would be to meet Latin American needs for manufactured goods and those raw materials such as tin and rubber which would now be exceedingly scarce.

(v)

After Rio

With pre-emption thus falling into the background as far as the Ministry was concerned the two main problems of economic-warfare policy for the British Government were to concert action with those American countries which were prepared to cooperate in arrangements for contraband control and listing, and to concert action with the United States in dealing with those which were not.

On the eve of the Rio conference the State Department showed some uneasiness lest its delegates should come under fire from South American Governments because of the severity of the Proclaimed List policy. It was suggested to the British embassy that in view of the relative leniency of British enforcement of the Statutory List some attempt might be made to play the policy of one government off against that of the other. The Ministry at once (on 15th January 1942) sent a message to Mr. Welles through Sir Noel Charles affirming its deep appreciation of the vigorous action of the United States Government over the whole field of economic warfare and its intention to make the utmost use of the opportunities provided by the Proclaimed and Statutory Lists; and it cordially agreed to a statement by Mr. Welles to the Latin American delegations that the aims and determination of the two governments were identical. The State Department seemed to be pleased with this message. The Ministry nevertheless felt somewhat nettled by the suggestion of greater leniency, and pointed out to Lord Halifax on 17th January that although legally it could apply direct sanctions under the Trading with the Enemy legislation only to British firms whose head offices were in the British Empire it had instructed British missions to request all British firms to refrain from unauthorized dealings with firms in either list, and it had no reason to think that this request had been disregarded. In fact there was no evidence that the American authorities had been any tougher than the British. In September, October, and November 1941 the United States Government had issued 14 licences permitting U.S. firms to ship to Proclaimed List nationals in Latin America, while during the same period only four similar licences had been issued by the Ministry for the whole world. For some months they had automatically listed all firms placed on the Proclaimed List with the exception of a few firms which had given undertakings; on the other hand the United States had not accepted the principle that entry on the Statutory List was in itself a ground for inclusion in the Proclaimed List. The War Trade Department seems nevertheless to

have felt that there was some justification for the charge, arguing that Proclaimed Listing had become 'something of a Crusade and woe betide any American who doesn't join in'.

After the Rio conference, a number of points were rapidly cleared up. The British intention was to accept whatever line the United States Government felt able to follow, but neither to abandon its own independent participation nor to leave the Americans to carry the whole burden of the more unpopular decisions.¹ Administrative arrangements for joint handling of listing questions had been completed by the end of January 1942. It had been agreed in principle early in November 1941 that the two governments should each be represented on the other's listing committees, and the Ministry, as we have seen, regarded as 'eminently satisfactory' the State Department's proposal in January that Washington should be the centre for matters concerning the American republics, and London for those relating to European countries.² As far as listing in Europe was concerned the State Department proposed that its representatives in neutral countries should consult closely with their British colleagues, who would report the view of the Americans to London. The latter would telegraph directly to the U.S. embassy in London in cases of disagreement with their British colleagues, but it was believed that there would almost always be agreement 'in the field'. Most of the other cases would be reconciled in London, and only if there was still a difference would it be necessary to refer the matter to the State Department. While the Ministry was glad to accept this arrangement for Europe, and its equivalent for Latin America, there was some doubt as to how complete acquiescence should be: there might be one case in a hundred in which the British could not accept the United States view. It was considered tactful to leave this point deliberately vague in replying to the Americans, but they had already met the point with the sensible proposal that 'it should be recognized that cases may arise in which all attempts at reconciliation may fail and that then we shall have to agree to disagree'.

British officials established from the start a happy relationship with the Proclaimed List Committee. This body had been set up by Presidential Order with representatives of the Departments of State, Justice, and Commerce, the B.E.W., the Treasury, and the Coordinator of Latin American Affairs. The chairman and the agenda were supplied by the State Department. Each new supplement to the Proclaimed List had to be signed by the chiefs of every one of the departments represented on the committee; this was in

¹ After becoming President of the Board of Trade in March 1942 Mr. Dalton took steps to ensure that the Board's officials conformed to the Ministry's economic-warfare requirements in blacklisting.

² See p. 47 above.

accordance with an early decision of the committee (which was apparently not put down anywhere in writing) that decisions should be unanimous. The greatest opponent of listing seems generally to have been the Treasury; the most active supporter the State Department. The British embassy's position was in theory informal and no mention of it appeared in the Presidential Order; but in fact a representative attended every meeting (with a member of the Canadian legation), and took part in the discussions on terms of complete equality. Moreover, informal meetings took place with the chairman once a week to discuss any cases of difficulty. The personnel of the committee, including the chairman, were drawn from the middle administrative grades. The chairman during 1942, Mr. Dickey, was the head of the division of the State Department responsible for listing matters, and was clearly an able and conscientious man, intensely interested in his job and with a vast fund of information in his head; but his position appeared to be rather that of a technical expert, who was not taken into the confidence of his seniors on matters of high policy. The same was true of Mr. Donald Hiss, who as the head of the Foreign Funds Control Section in the State Department was responsible for the political aspects of the Freezing Orders and for such matters as the conditions to be exacted for the proper control of a firm before de-listing. Both these excellent officials worked closely and amicably with the War Trade Department, but they were of comparatively junior rank under Mr. Acheson's command, and there was no intervening link in the hierarchy. Mr. Acheson naturally had many other irons in the fire, and the embassy was conscious of the need for some official of intermediate rank with whom questions of more general policy in this field could be discussed.

There was always a tendency, therefore, in spite of the close and frequent discussion of individual cases, for the embassy to find itself out of step with some new development of United States policy, and this was increased in 1942 by the tendency of some of the United States missions in Latin America to get out of step with the State Department itself. This was particularly the case in Brazil. By basing her policy on Hemisphere Defence the United States was less able to resist the claims of Latin American countries to participate in listing than was the United Kingdom, which continued to treat listing as a matter of domestic policy under the Trading with the Enemy legislation. At the beginning of February it was reported from Rio that Brazil, as a non-belligerent ally, desired the abolition of the Statutory and Proclaimed lists for her nationals, and that the Secretary General of the Ministry for Foreign Affairs had discussed the matter with Mr. Welles. He appears to have avoided any decision, but to have suggested that the United States embassy

should discuss the cases of certain Brazilian firms with the Banco do Brazil. The Brazilian Government did not press the idea of abolishing the lists for the time being, but it suggested joint consultations with an informal committee to discuss economic-warfare problems. Although the United States embassy gladly fell in with this plan, the joint meetings started without the participation of British representatives. Listing of Brazilian names stopped altogether for some weeks. The Brazilian aim was avowedly to reduce the number of Brazilian firms on the Proclaimed List as much as possible.¹ It was on the initiative of the Brazilian authorities that the British embassy was invited to send a representative, and Sir Noel Charles agreed to do so; the assumption at this stage apparently was that the British and American representatives would reach agreement on all cases before submitting them to the committee. The State Department considered that these proposals were put forward by the Brazilian authorities and reported to Washington in 'rather mandatory terms' which implied that the committee in Rio would make decisions, after which there would be no further function for the Proclaimed List Committee.

It seems that during the next few weeks both the State Department and the British officials in Rio, Washington, and London felt uneasy at the tendency of the United States embassy to reach independent agreement with the Brazilians on listing questions; on a number of occasions the British embassy in Rio found that the Americans were not prepared even to discuss outstanding cases, although the information on which the United States embassy was acting had been provided by the British. The Brazilian officials, who did not wish to be solely dependent on the United States, 'leaked' to the British embassy about their discussions with the Americans. In Rio, members of the United States embassy argued that the British position was not quite the same as theirs: the Americans had to give weight to political and military considerations against those of economic warfare, and in the broad interest of Hemisphere policy they might have to make decisions and remove Brazilian firms from the lists. In Washington the political sections of the State Department tended to favour conciliation, while the economic sections opposed relaxation; this tendency to sacrifice economic for political considerations was strongly opposed by Mr. Acheson who, as head

¹ The W.T.D. was told at the end of February 1942 that the proposed lines of work of the committee were as follows. (1) Cases already recommended for the P.L. and passed by P.L. Committee would be reviewed; where possible, the Brazilian Government would take remedial action; otherwise the cases would go forward for listing. (2) Normally the committee would review all cases for listing; cases would go forward if Brazilians agreed. (3) Brazilians were taking remedial action about some cases on the list, and would recommend deletions. (4) The Banco do Brazil and Ministry of Foreign Affairs were considering methods to control the Japanese farming community. (5) The committee was against placing individuals on the Proclaimed List but favoured placing them on the Confidential List instead.

of the Board of Economic Operations of the State Department, was well aware that to relax pressure in Brazil would almost certainly lead to demands from other South American Governments for similar concessions. His position was no doubt complicated enough without the additional embarrassment of the complaints which Mr. Hall made to him about the failure of the United States officials in Rio to consult their British colleagues. A further complication which appeared during April was that Mr. Welles was not prepared to commit himself to a strong listing policy.

Some of this tension appears to have been due to the independent line taken by Mr. Caffery, the United States ambassador in Rio, and to the evident desire of the United States representatives to secure complete control of the war effort in Brazil. Sir Noel Charles remarked in a telegram to Lord Halifax on 23rd April that the early force of the United States listing policy in Brazil had now been dampened, and the blame for wishing to carry out what nine months before had been a strong joint policy was now laid at Britain's door. Discussions in Washington at the end of April and beginning of May between Mr. Acheson and Mr. Noel Hall may have cleared the air. From the middle of May Sir Noel Charles was able to say that the position was improving; the Americans seemed to be more ready for joint consultation with the British, and the Brazilians seemed to be reconciled to the listing of the less important concerns, and even to favour that of pro-Axis ones. Accordingly recommendations for listing were again made; 96 names were suggested on 8th May to Washington for inclusion in the Proclaimed List (nine were already on the Statutory List). But although the Brazilians had 'calmed down' they had made it abundantly clear that they did not want interference with their internal economy by either the Germans or the Allies. They would themselves take control of a number of important pro-Axis firms, and expect the Allies to delete the names of these firms from their lists; and it seemed that the Allies would be well advised to delete gracefully rather than to create fresh tension.

The issues involved in these Brazilian discussions were typical of developments generally in Latin America, although the complexities varied according to local circumstance. The leadership of the United States was necessitated and indeed abundantly justified by its great assumption of military, economic, and political responsibilities. On the other hand there might be in this exercise of temporary power the beginnings of an ascendancy over Latin American economy and politics which would not disappear in the succeeding peace. The reaction varied from the stubborn adherence of Argentina to a complete policy of neutrality to annoying delays and procrastination on the part of other states which knew that they would

have to accept the United States' proposals in the long run. To examine these developments in any detail would be to take us beyond the sphere of British blockade policy, and it is only possible here to remind ourselves of the complexities of the Latin American situation behind the issues in which the Ministry of Economic Warfare was directly involved. Brazil had pointed to one solution of the listing problem by herself taking control of unsatisfactory firms, after which they were expected to be removed from the British and American lists. Similar action had been taken in the United States by means of a variety of controls, ranging from the vesting of a firm such as General Aniline & Film Corporation to ordinary blocking of funds with a wide licence to operate; the mere complexity of these devices was a warning that the inexperienced and in some directions unenthusiastic officials of some Latin American countries might not be able to ensure that the firms in question had been deprived of all capacity for mischief. There seems to have been widespread concern in many capitals lest the permanent elimination of German firms should leave the way free for United States firms to take their place. And even the British authorities could not avoid some speculation about the adverse effect on Britain's own post-war trading position in South America.

All these difficulties were being faced by the British embassy and the State Department in the early summer of 1942, and after the Department had reasserted itself as against the Board of Economic Warfare it was possible to move toward a reconciliation of the Anglo-American and Latin American positions. The word 'elimination' began to be used more frequently from about this time. The possibility of 'effective local controls' called for a definition of 'effectiveness' and since some countries had merely broken off relations while others were at war with the Axis, there could also be a distinction between standards of effectiveness in each case. The Ministry's comments leave no doubt that it favoured total elimination, instead of the policy of control, or 'sterilization', that was beginning to be followed by Brazil. Thus on 17th May, in commenting on some proposals from the two missions in Caracas, the Ministry remarked that the 'full aim of the United Nations in this matter should be to destroy Axis commercial influence in South America so that these [*sic*] cannot easily be resumed after the war, and, therefore, I consider essential the complete elimination of Axis financial interest and goodwill'. Mr. Acheson was also known to favour total elimination. The dilemma faced by both governments was that elimination could not be effective without local cooperation, and in some cases local controls, far from reinforcing the effect of listing, were being used to circumvent it. In the view of the War Trade Department a solution could be found only in winning the confidence of the Latin

American states; they should be offered Anglo-American cooperation in return for agreement as to the way in which Axis activities should be controlled. If they would (1) take powers and actually proceed to sell 'enemy interests by definition' and (2) appoint 'interventors' in certain firms which were enemies by specification, the names of the firms in question could then be removed from the lists.

It was along these lines that the United States delegates developed their case in the 'Inter-American conference on systems of Economic and Financial Control' that opened its discussions in Washington on 30th June 1942. Its purpose was to draw up a programme implementing the financial resolutions of the Rio conference, and this programme was unanimously adopted subject to reservations by the Argentine and Chilean representatives. Provision was made for the freezing of Axis assets and for the control of assets and business enterprises regardless of nationality, if these were inimical to the security of the Western Hemisphere. Various resolutions were adopted which implicitly accepted the 'doctrine' of elimination; the most important was Resolution 7:

That in accordance with the constitutional procedure of each country, all necessary measures be adopted as soon as possible, in order to eliminate from the commercial, agricultural, industrial, and financial life of the American Republics, all influence of governments, nations, and persons within such nations who, through natural or juridical persons or by any other means are, in the opinion of the respective Governments, acting against the political and economic independence of such Republics, and that to this end the following measures be adopted: . . .

The outstanding achievement of the conference lay in the establishing of a basis for cooperation; the implementation of the resolutions was another and more difficult matter. The resolutions were merely recommendations to the governments concerned, although they appeared to the British embassy and to the Ministry to be quite on the right lines. The embassy paid a tribute to the thoroughness and tact with which the American officials had presented their case. The United States Treasury had kept closely in touch with the British embassy during the conference, and a real effort was evidently being made to reconcile the political aims of the United States Government with the need for common action with the British in economic warfare questions. Mr. Acheson during the conference told the Mexican ambassador that he felt compelled to concede immediately the principle that no firm controlled by a belligerent ally should be on the Proclaimed List.

The State Department followed up the Washington Conference in August by circulating to United States missions instructions on Vesting, Forced Sale, and Interventions for guidance in connexion

with the conference resolutions (particularly no. 7), and in London the Ministry, after consultation with the Foreign Office, wrote to Lord Halifax on 3rd September defining its views on final elimination. It agreed that 'total elimination can only be applied to firms which are enemy by definition . . . Their total ruin by final elimination appears to us to be necessary for war purposes and therefore to be a proper war objective'. But it instructed the embassy to bear certain considerations in mind in discussions with the State Department. These were (a) that neither the British nor the United States Government had carried out a policy of eliminating enemy firms;¹ (b) whereas such firms could be vested by governments which had declared war, the only way that they could be eliminated by neutral or non-belligerent governments was by forced sale; (c) the aim should not be to force Latin American Governments to eliminate these firms but to cooperate in order that the firms should be eliminated; (d) confiscation should not be encouraged and the proceeds of elimination should be blocked; (e) the possibility of the replacement of these firms by United States competitors should not affect the pursuit of the objective of elimination by the British authorities. In some ways these 'considerations' reveal greater caution than the British embassy in Washington thought necessary. The Ministry seemed to be thinking of Latin American legislation too much in terms of its own: the Mexican T.W.E. legislation for example provided for forced sale, and the Mexicans might find it useful to take advantage of this provision. As far as United States competition with British firms was concerned the embassy was evidently impressed by the repeated assurances of high American authorities that they definitely disapproved of the replacement of eliminated Axis firms by United States firms. Mr. Berle had, for example, recently assured Sir George Ogilvie-Forbes² that United States policy was not aimed at interfering with legitimate British trade in South America. The outcome of informal discussions with the State Department on the lines of the Ministry's views was that a general agreement was reached on the desirability of cooperating with Latin American Governments with a view to selling or otherwise eliminating enemies by definition and obtaining suitable supervision and control of other categories.

Meanwhile the result of the recognition of the Mexican controls

¹ The wording of the T.W.E. Act provided for control 'with a view to preserving enemy property until Peace'. The legal view was that this precluded sale. Some steps had been taken to liquidate insolvent enemy businesses, but there had been no positive drive to wreck for all time all Axis interests in the United Kingdom. It does not appear that such a policy would have had the support of the Board of Trade, whose agent the Custodian of Enemy Property was. In the 1914-18 war the Courts in making orders vesting enemy businesses gave powers of sale but these were not exercised until 1919 unless the Controller, who was often a chartered accountant, received a 'fair' price for them. Enemy interests were also being preserved in form in Germany during World War II.

² British minister at Havana, 1940-8.

had been a total suspension of listing—with no deletions and no additions. There was for a time no accurate information as to the effectiveness of these controls and eventually a representative of the British embassy, and later an American official, visited Mexico City. The latter returned with a more favourable report than had been expected, and with an agreement to publish certain deletions and additions. A procedure for consultation between the British embassy and the Mexican authorities was arranged, and the Mexicans agreed to provide full information on the vesting of individual firms. This was quickly followed by pressure on the State Department by the United States embassy in Mexico City in favour of the deletion of certain firms, including such names as General de Anilinas, Quimica Schering, Siemens, and others, and although the State Department was reluctant to comply it had in the end to proceed to the systematic deletion of vested names. Neither the Ministry nor the State Department felt sufficiently well informed about the efficiency of the Mexican controls to be really happy about the position; but nevertheless the policy had been decided on and the lists for Mexico began to dissolve. The War Trade Department thought that it was 'probable that the Mexicans did a good job', but no one could be certain. The experience seems to have made the State Department more cautious with regard to de-listing in other Latin American countries.

We may close this Latin American chapter by noting the situation with regard to the two outstanding neutrals. Chile had been a little less absolute in its attitude throughout 1942, and for a time the continued vulnerability of its coastline appears to have commended the policy of neutrality to Chilean opinion. From the summer of 1942 onward, however, Chilean and Argentine tolerance of Axis spies was publicly denounced by Mr. Welles and others, and in November particulars of these activities were published; there was a growing movement of Chilean opinion in favour of a rupture with the Axis Governments. This political, and less obtrusive economic, pressure led the Chilean Government, under President Rios, to break diplomatic relations with the Axis on 20th January 1943. But Argentina, although she was now the sole American neutral, did not respond, and Argentine economy felt increasingly the deprivation of United States supplies. These matters had a direct bearing on British policy in a number of directions, and particularly in connexion with the desire of the United States Government during the second half of 1942 to use the British blockade machinery to cut Argentina off from the benefits of trade with Sweden.¹

¹ These developments are examined in connexion with the Swedish war trade agreements in chaps VI and XV. Sir David Kelly, *The Ruling Few, or the Human Background to Diplomacy* (London, 1952), pp. 287-314, is a good if somewhat critical account of Anglo-American-Argentine relations by the British ambassador to Argentina (1942-6). It can be compared with Cordell Hull's account: *Memoirs*, ii, 1384-1406, 1474-5.

CHAPTER V
THE MACHINERY OF THE
BLOCKADE

(i)

The Navicert System

WE have now examined the course of the economic war in the two areas—the Pacific and Latin America—in which the United States took the lead after the summer of 1941. To cross the Atlantic and to reach Europe from the Americas contraband had still to circumvent the blockade, and here Great Britain continued to have the main responsibility.

The third phase of the war saw no major changes in the administration of contraband control comparable with those introduced after the fall of France. The basis of control continued to be the ship navicert system.¹ Due respect for the sanctions behind it seems to have been shown by neutral shipping, and the Ministry claimed at the end of 1942 that while some 4,650 ship navicerts were issued, only in the case of Iberian coastal shipping did any ship sail without a ship navicert in circumstances where one was required. In the United States export licensing replaced the navicert system; and as Brazil and other Latin American states joined the United Nations in 1942 a more positive attitude to the working of the navicert arrangements in those countries could be expected. The L.A.T.I. air service came to an end early in the year. The main change, however, was in the greatly widened scope of the blockade, and in the relative importance of the weapons employed. Blockade running between Germany and Japan became a serious problem with the closing of the trans-Siberian route in June 1941, and after Pearl Harbour Japan's conquests created a new enemy area of great size and economic wealth. The denial to the two enemies of access to the products of each other's dominions meant that a major part of the blockade would once more depend, as in the first winter of the war, on naval interception, whereas in the eighteen months following the fall of France the new arrangements for control at source had been adequate, with very little naval assistance, to deny to Germany

¹ Full particulars will be found in the first volume of this work (especially pp. 436-42).

practically all ocean-borne supplies, except those carried in enemy or Vichy blockade runners, or in Vichy ships in convoy. A similar problem was the prevention of smuggling in neutral vessels sailing from American ports to the Iberian Peninsula. The closing of the L.A.T.I. route and the increasing demand in Germany for goods of small bulk and high value—such as platinum and industrial diamonds—led to a great increase in these attempts at evasion after the beginning of 1942.

With the United States in the war and strongly supporting the compulsory navicert system the work of the contraband-control bases became more straightforward, although it was by no means lessened. The base at Bermuda continued to operate until April 1943. A new base had been opened at Trinidad in May 1941, and continued to operate until after the end of the war with Germany. The Trinidad base before the end of 1941 had been used mainly for controlling the two large Spanish mail ships running to South America. As Spain's quota of oil fuel was insufficient to allow these vessels to fuel in Spain they had to secure Allied permission to fuel at Curaçao, and this made it possible to require the ships to call at Trinidad and to submit to examination, together with their mail, passengers, baggage, and crews. The base also controlled Spanish passenger ships running to Cuba and the United States, and various other neutral shipping lines. After January 1942 Gibraltar and Trinidad had plenty to do in examining cargoes, passengers, and crews. Their work consisted normally in checking bills of lading and cargo navicerts with the manifest, and in examining a few accessible items of cargo; checking crew and passenger lists, searching passenger cabins, luggage, and belongings; searching crews, their quarters and belongings; searching the ship spaces for smuggled goods and stowaways, and examining passengers and crews with a view to obtaining information of interest—either economic or military. The chief aim of the search parties was to find, in ships bound for Europe, smuggled articles of small bulk and high strategic value, illegal or 'third party' mail, currency, and unapproved passengers. In ships outward bound from Europe the objects of search were similar, enemy exports of high value such as jewellery (from which currency could be obtained abroad) taking the place of smuggled imports. It may be noted here that the fact that from February 1942 the only contraband-control bases were overseas created a serious manning difficulty; if only one United Kingdom base had remained in existence it would have provided a supply of trained officers to staff new bases or expand existing ones, and to replace officers who had completed their periods of foreign service.

After the United States' entry into the war an agreement was reached with regard to the censorship of mails from the United

States. The British authorities recognized the special interest of the United States in mail to and from Central and South American countries, and accordingly invited the United States authorities to take over the whole responsibility for the examination of sea mail between North and South America. They did so as from 23rd February 1942.

We have seen that the complete marriage of navicerts and United States export licences was already in sight before December 1941, and that there was no desire on the part of the United States Government to make more than the minimum changes necessitated by the new fact of Allied cooperation.¹ All United States exports became subject to licence after America's entry into the war; and as far as these were concerned the Ministry saw no objection in principle to a single document which would cover both the export licensing and navicerting in the United States. It did, however, see strong objections to the substitution of local export licences for navicerts in Latin America, and it was correspondingly pleased to learn during January 1942 that the United States Government did not intend to propose any change in the working of the navicert system for Latin American countries. The need to ration neutrals and maintain the global quota system remained, and it was obviously desirable to use for this purpose the existing machinery in London.

Accordingly only one document, the United States export licence, was required on and after 1st April 1942 for exports from the United States to the navicert area. Aircerts and mailcerts for goods from the United States were also replaced by export licences after that date. A London reference unit was established by the Board of Economic Warfare, and this unit saw all applications that were rejected on supply grounds. Any applications which were not ruled out on supply grounds or because the consignors were on the Proclaimed List were referred by the Board of Economic Warfare in Washington direct to the Ministry in London for consideration on quantitative and consignee status control grounds. The decision was taken in London in consultation with the United States embassy and if all conditions were fulfilled the amounts were deducted from the relevant quota and a favourable reply sent to Washington. Thus the central administration in London of the rationing system was maintained, the United States Government taking its part in fixing the rations through its representative there. United States export licence numbering followed the navicert numbering system.

It was agreed also that the inverted system should be maintained; it was extended to Spain and Portugal during 1942 and the British authorities were satisfied that it had proved its usefulness in the distribution of limited quotas and the administration of rationing

¹ See p. 49 above.

generally.¹ The State Department agreed in February 1942 that applications should continue to be made to M.E.W., but it did not wish that applications to London by neutral importers for permission to ship goods from the United States should be regarded as applications for United States export licences. It was accordingly arranged that application could be made in London for what was to be called a 'blockade control permit'. If there were no objection on consignee or quota grounds the Ministry would notify the Board of Economic Warfare, which would treat the notification as an application for an export licence.

The United States Government's position with regard to enemy exports was, as we have seen,² somewhat ambiguous; in practice, however, difficulties were avoided by its decision to leave the matter in British hands, and not to issue its own certificates of origin. An American representative was appointed to the Enemy Exports Committee and export passes were issued for enemy goods which the State Department certified to be necessary for the joint war effort.

After 1st April 1942 a certificate from the collector of customs at the United States port replaced the ship navicert. This 'voyage certificate', which was issued subject to the undertaking, now called 'voyage covenant', normally given by the master of a navicerted ship, was in every essential identical with the ship navicert and was recognized by British naval patrols. In the same way American patrols were instructed to accept ship navicerts covering goods from non-American ports. Voyage certificates were issued only to vessels holding valid American or British ship warrants, with the exception of Allied vessels, Swedish ships on approved voyages to Gothenburg, French ships on approved voyages to North Africa, and Spanish Government 'Castillo' ships.

British consuls in the United States were still required to send to the Ministry, with a copy to the Co-ordination Centre (War Trade Department) in Washington, reports of all ship departures to the navicert area, and to send to the Ministry one copy each of the voyage covenant and ship's manifest. The second copy of the manifest was retained by the consul. The United States authorities informed collectors of customs that for reasons of high policy United States and British controls had been integrated and that they were to maintain close contact with the nearest British consuls and supply them not only with the voyage covenants and manifests, but also with the information required for the war-trade reporting telegram to London. Precise details were left to the posts to work out individually, but it was hoped that as a result of this direct contact the scope of collaboration would be widened beyond the strictly limited field of war-trade reporting.

¹ Cf. E.B., i, 441.

² See p. 50 above.

Copies of export licences were not attached to the ships' manifests but copies of export declarations signed by the exporters took their place. Voyage certificates were attached to the manifests and masters of ships had to undertake to surrender these documents to the American consul at the port of final unloading; they were then handed on to the British representatives for transmission to London in the ordinary way. Some time elapsed, however, before the system as operated by the Americans ran as smoothly as before. On 22nd October 1942 the British consul at Baltimore complained that in many cases he could not obtain copies of the ships' manifests showing the names of the shipper and consignee as well as the export declaration number, the export licence number, and the control number. When the matter was taken up with the United States collector of customs in Baltimore the reply was that to demand such a manifest from the agents would require a Federal order. The collector of customs was interested only in the outward or customs manifest which did not show the final destination. On 22nd December the Ministry passed on the complaint to the British embassy in Washington but it was not until 28th January 1943, after repeated representations to the State Department, that they could report any progress. On 26th January the Bureau of Customs of the United States Treasury sent out instructions to Collectors which said that 'whenever the words "vessel's manifest" or "manifest" are used in the voyage covenant instructions, they refer to the carrier's "ship's manifest" and not to the "outward foreign manifest"'. The United States Customs also sent out copies of a memorandum, supplied by the British embassy in October 1942, explaining the importance of this system to the war effort. The American customs officials were reported to be quite impressed with the memorandum. They admitted they had been pretty much in the dark about the workings of the system and they felt sure it would do a great deal to encourage the Collectors and their staffs 'in carrying out enthusiastically and accurately the rather boring work of checking manifests and control numbers'.

So much for the administrative arrangements. But there was also, after January 1942, a major change in navicert *policy*: the system, which had hitherto been used only to ration the neutrals and prevent trade with the enemy, was now used to conserve all available supplies of scarce commodities for the United Nations. This was in accordance with the new arrangements whereby Allied raw materials were in future to be allocated by the Combined Raw Materials Board in Washington. The issue of navicerts for all such commodities, and particularly rubber and tin, was suspended, and this became a major talking point with those European neutrals who had come to regard the quarterly rationing schedules as their right,

subject to the availability of supplies.¹ On 4th February British representatives in South America were told that on receipt of navicert applications for commodities covered by negotiations for export control between the United States and Latin American governments they should consult their United States colleagues. If they reported no objection the application would be treated in the ordinary way when referred to London. Otherwise the application should be marked 'pende' and all complaints met with the answer that the navicert could not be granted without the concurrence of the United States Government. Although the State Department accepted this procedure as workable it seemed in no hurry to issue any instructions on the subject to its own representatives in South America, and for some months the Ministry had to make the best arrangements it could in the light of whatever information the embassy could send from Washington as to the State Department's attitude to the various commodities concerned. At last, on 14th November, Lord Halifax was able to tell the Ministry that it would no longer be necessary for British representatives in South America to consult their United States colleagues, but that lists of navicert applications for 'short supply' commodities should be circulated at frequent intervals to United States missions for information. On 24th November, therefore, British representatives in Latin America were instructed to forward any applications for commodities in short supply direct to London. Commodities covered by United States purchase agreements were marked 'pende' for investigation of origin and possible refusal, since under such agreements export licences should have been refused by the country of origin. With regard to applications for vegetable waxes and wool for Sweden and Switzerland, hides for Portugal, and bristles and horsehair for all destinations, the Ministry would consult the Board of Economic Warfare in Washington on the supply aspect.

So by the end of 1942 the wedding of navicerts and export licences had been successfully accomplished. There was little change in the actual working of the navicert system, although discussions began in the Ministry in May 1942 as to ways and means of strengthening control of ships through the navicert regulations. The Board of Economic Warfare in Washington and the British embassy in Buenos Aires were pressing for a stricter control of ships' stores and bunkers. Confusion had been caused by the method of issuing ship navicerts at the last port of loading, regardless of any subsequent calls for bunkers, and the Admiralty asked that in future a ship navicert should be granted only as far as the next port of call. There also seemed need for a better control of unaccompanied luggage and an

¹ This decision came at a particularly awkward moment in the Anglo-Swedish negotiations. See p. 188 below.

alteration to the ship navicert undertaking to prevent the inclusion of supercargoes and extra persons in the approved crew lists. But by and large the Blockade Committee had no reason to doubt the effectiveness of the existing arrangements; by this stage of the war the blockade was a highly organized administrative system in the hands of experienced officials, and innovations mostly followed suggestions from their ranks.

The following tables show details of applications for navicerts and United States export licences dealt with in M.E.W. during this period. It must be remembered that applications for export licences were rejected in the States on consignor and supply grounds without reference to London.

Navicert applications dealt with by M.E.W.

August 1941–February 1942

<i>Month and Year</i>	<i>Received</i>	<i>Granted</i>	<i>Refused, cancelled, etc.</i>
August 1941 . . .	5,924	4,506	1,418
September . . .	6,380	5,132	1,248
October . . .	5,975	4,394	1,581
November . . .	6,212	4,830	1,382
December . . .	7,200	4,988	2,212
January 1942 . . .	6,556	4,753	1,803
February . . .	5,980	4,286	1,694

March 1942–December 1942

	<i>Received</i>	<i>Granted</i>	<i>Refused</i>	<i>Withdrawn, cancelled, etc.</i>
March . . .	3,515	2,460	703	352
April . . .	1,515	985	455	75
May . . .	1,535	988	461	76
June . . .	1,620	1,134	324	162
July . . .	1,495	1,046	299	150
August . . .	1,732	1,212	346	174
September . . .	2,112	1,373	634	105
October . . .	1,761	1,145	528	88
November . . .	1,922	1,249	577	96
December . . .	2,316	1,505	695	116

U.S. export licence applications dealt with by M.E.W.

March 1942–December 1942

March . . .	1,040	728	260	52
April . . .	3,526	2,468	882	176
May . . .	3,771	2,640	942	189
June . . .	3,759	2,819	752	188
July . . .	3,467	2,600	693	174
August . . .	3,110	2,333	622	155
September . . .	3,667	2,750	733	184
October . . .	4,002	3,002	800	200
November . . .	3,138	2,354	628	156
December . . .	4,238	3,179	848	211

(ii)

Passenger and Crew Control

One aspect of the controls which received closer attention at this period was that of preventing the movement of persons who might in one way or another help the enemy. When passenger control was introduced in June 1941 it was at first used mainly to prevent persons who might be useful to the Axis from travelling to South America. A number of enemy technicians—seamen and engineers—were similarly prevented from returning to Europe, but generally the policy with regard to passengers to Europe was based upon the principle that Germans and Italians would do less harm in Europe than in the Americas. By the end of 1941, however, there were indications that one of the enemy's main problems would be a shortage of certain classes of man-power, and the Ministry believed that attempts would be made to secure the services of neutral technicians for the Axis war machine. There was nothing under the existing passenger-control machinery to prevent such people from travelling to Europe, and in November 1941 the Ministry began to consider the necessity for tighter measures of control.

The Admiralty instructions regarding the treatment of enemy aliens on neutral ships were based on a War Cabinet decision of 27th September 1939, and were the result of the paramount need at that time to avoid offending neutral, and particularly United States and Italian, opinion. The Admiralty recognized the need for more extended powers and during the first three months of 1942 there were prolonged inter-departmental discussions in London on the point. The main extensions of the categories of passengers which the Admiralty proposed should be removable from neutral ships were: (1) privates, as well as officers and N.C.O.'s of the enemy's armed forces; (2) nationals of enemy-occupied states who were unapproved passengers on neutral ships; (3) unapproved passengers on both inward- and outward-bound vessels. The matter was not entirely or even mainly one for the Ministry. The economic-warfare argument was that it was illogical to refuse a navicert for some vital commodity intended for the enemy, and at the same time to allow a technician to travel who could replace the commodity by developing some technical process. By this stage, however, the existing machinery of passenger control was working very adequately in neutral ports; no ship was granted a ship navicert unless the British consul had approved the passenger and crew lists, and it could not really be argued that the extended powers asked for would be necessary in more than a few cases of passengers whose names did not

appear on the lists approved by a British consul. There were, moreover, strong objections to certain of the proposals from the Foreign Office: the removal of neutrals from a neutral ship was almost impossible to justify under international law unless they could definitely be proved to be enemy agents, and the removal of neutral technicians leaving Europe would be particularly hard to justify.

In any case the position had changed with the United States' entry into the war, and with the severing of diplomatic relations between the Axis powers and most of the Latin American states; the opportunities of movement by undesirable neutrals had been correspondingly restricted, and the search for more extended formal powers could be abandoned. The Ministry's aim was now, in conjunction with the security services, to work out satisfactory arrangements with the American republics.

The need for certain improvements in the organization had, for example, been revealed by the first five months' experience of the working of passenger control in the Iberian Peninsula. In Portugal control was in the hands of the British passport control officer who had opportunities for scrutinizing all passenger lists, but in Spain, where there were more ports, the passport control officer in Madrid only received copies of the passenger lists at best forty-eight hours before the sailing time and usually one or two days after the vessel had left. He was short-handed and the Spanish Government raised objections to any increase in the consular and diplomatic staffs. There were indications that passenger control on the North Atlantic route was driving undesirables to the South American route, since American Export Line ships called at Bermuda on both the eastward and westward runs while Spanish ships called on the eastward run only and Portuguese ships did not call at all. If a call at a British control base could have been enforced it would have become imperative for every passenger who wished to cross the Atlantic to obtain a British transit visa; but owing to the length of the voyage which would become necessary it was found impossible to divert ships on the South Atlantic route except occasionally.

However, the entry of the United States into the war and the breaking off of diplomatic relations with the Axis by various South American states speedily improved the position. Instructions were issued by the State Department that no United States shipping or air transport companies should carry Proclaimed List nationals between any points outside the United States. Arrangements were made in Lisbon between the British passport control officer there and the American consul-general for an exchange of all available information regarding persons on passenger lists submitted for checking. The Americans did not establish their own passenger-control system but relied on the existing British organization, and the United States

consul-general was therefore provided with a copy of the passenger list of each vessel and he checked the names against his records. Where suspicion attached to any names on the list the British passport control officer was informed so that the necessary action might be taken to prevent that person from sailing. The United States legation also passed on to the British information about non-American citizens—mostly South Americans—who wished to return home or proceed to other destinations outside Europe.

By March 1942 control over passengers to and from the United States had also been greatly strengthened and the British were consulted before any visa was issued to an intending passenger from Europe. Spanish ships were forbidden by the Spanish Government to carry passengers to and from the United States because the Germans had refused to give an assurance that such vessels would not be torpedoed. Portuguese shipping lines required all passengers to complete passenger-information forms which had been specially designed on the basis of the new visa application forms. On the South American route most Spanish vessels were by this time calling either at Gibraltar or Trinidad, chiefly because they now had to carry their own mails and were ready to submit to British control. Portuguese ships still refused to call regularly at a British control base and therefore did not carry mails, but as most of the passenger traffic consisted of refugees from Lisbon or Casablanca, and as a call at Trinidad or Gibraltar was insisted on for these ships, there were in practice few passenger ships which did not call at a control base sooner or later.

There were still some gaps in the control caused by traffic on Pan-American Airways to South America, but apart from this the system was felt to be 'very effective'. It had proved its value early in the year when diplomatic relations between the Latin American countries and Germany were broken off. Plans were made for the exchange of nationals, and passenger control was the weapon by which the repatriation of large numbers of enemy technicians and men of military age was prevented. The State Department was in favour of allowing all Axis diplomats and hangers-on of enemy missions to go home from South America, on the ground that they would be more of a thorn in Allied flesh if they were to remain, than of use to the enemy if they were to return. The British Foreign Office concurred in this view; the Ministry on the other hand was opposed to the return of the technicians. Discussions on this matter continued during the early months of 1942, and it was known by the spring that at least 2,600 persons were involved. One ship sailed from Montevideo in April with a party from Uruguay. 53 members of the L.A.T.I. personnel wished to sail in May, and the British authorities refused to give them a safe conduct. Objection was also

taken to 28 others. Large numbers of Axis diplomatic and consular officials and private persons continued to be sent back to Europe during May; one ship carried 900 Axis nationals, mainly diplomatic and consular officials. Passenger lists were examined by the British authorities, and the United States Government reluctantly agreed to hold back certain persons to whom the British took exception. Another ship carrying repatriated officials and private persons from Uruguay was given a safe conduct by the British minister at Montevideo, thus in effect exempting the ship from search. Later it proved necessary for her to call at Trinidad and the question arose as to whether she should be searched there. It was eventually decided that the ship must be allowed to pass without examination. Three other ships sailed with Axis nationals from Brazil; a large number of technicians, mainly L.A.T.I. personnel, were refused safe conducts, but in view of the precedent created by the earlier ship it was necessary to give these ships safe conducts as well. The Axis passengers were, however, searched by the Brazilian authorities, although nothing of importance was found.

Passenger control served many purposes outside those which more directly interested the Ministry. It was a useful weapon for the security services, who used it to prevent the movement of enemy agents and to trap and arrest a number of spies travelling on ships that called at a British control base. The Ministry however was primarily concerned with the movement of goods, and in 1943 the ship navicert regulations were tightened up by the introduction of a special 'passengers' declaration for both eastward and westward voyages. The object of this was to check the carriage of quantities of goods which were in short supply in Europe.

Arrangements were also made during 1942 for a more effective control of ship's crews. Already under the navicert system the master of a ship was required to refrain from carrying seamen of whom the Ministry did not approve, but there was no organized method of approval of crews similar to that which had been introduced for passengers in June 1941. Early in 1942 the Ministry began seriously to consider the question of the control of crews on neutral ships sailing to and from the navicert area. The necessity for some such control was becoming more and more evident; passenger control was by this time working more or less effectively, with the result that suspected persons who were refused passenger facilities were attempting to evade control by signing on as seamen in neutral ships. Smuggling and letter-carrying by seamen was also increasing and neutral seamen were acting as enemy agents. It was felt that the suggested new control measures, in addition to preventing smuggling to some extent, might be a useful weapon for the security services in dealing with these agents.

The United States authorities had for some years been exercising an effective control over crews on ships sailing to United States ports. A crew list was submitted to the American consul-general who checked the names against his records. In any case where there was unfavourable information about any seaman his name was deleted from the list. A 'crew list visa' was then issued and this alone enabled seamen named on the list to land at a United States port. The British passport control officer at Lisbon suggested that similar measures should be introduced for the control of crews on board ships sailing to the United Kingdom and Empire ports and that the local representatives of Brazil, Cuba, Argentina, and Uruguay should be asked to cooperate. The British and United States authorities in Lisbon agreed to exchange information.

It was at first hoped in M.E.W. that it would be possible to go further than this and insist that individual documents of identity should be carried by each seaman, to be endorsed on each ship-*navicert* voyage. The matter was thoroughly discussed at a meeting of the maritime section of the Security Executive on 12th May 1942 when it was decided that the suggestion of a seaman's passport was not practicable. It was doubtful whether the Spaniards would agree that the holding of such a document should be made the condition of sailing from their own ports. In any event the passport control officers were so overworked that effective examination would be almost impossible. After consultation between representatives of the Ministry of War Transport, the Passport Control Department, and the Ministry of Economic Warfare agreement was reached on four points. (1) M.E.W. should collect, collate, and record all intelligence concerning seamen employed on ships operating outside enemy waters. Seamen might in certain circumstances be placed on the Statutory List, but for the most part they would be placed on a confidential discrimination list of seamen, which would be circulated to all missions and posts. Inclusions in the list and deletions therefrom would be decided upon by a small standing committee of the Black List Committee, on which the Ministry of War Transport would be represented. (2) The Ministry through the missions abroad should warn the Spanish, Portuguese, and Brazilian companies concerned of the stricter form of control and inform them that ship *navicerts* would not be issued unless all the crew were approved. (3) When application was made to a British consul for a ship *navicert* a list of the crew should be obtained and this list should give particulars of the registration of each seaman. In most cases the consul would be able, by reference to the lists in his possession or from his own knowledge, to approve or reject seamen. In a few cases he might want to refer to the passport control officer concerned. (4) The system in general should be run on the lines of passenger

control. These proposals were approved at a meeting of the Security Executive on 22nd July and on 29th July consuls were instructed to warn the companies concerned that the stricter control would be introduced as from 24th August 1942.

(iii)

Smuggling

The repatriation of Axis nationals from Montevideo and Rio de Janeiro drew attention to the general problem of smuggling. The safe conduct which the British Government had agreed to grant them would not normally have included immunity of baggage from search at a British contraband control base, and it was with great reluctance, and under pressure from the Foreign Office, that the Ministry had agreed to complete immunity from all interception, visit, and search for two Brazilian, one Spanish, and one Portuguese ship in return for search by the Brazilian and Uruguayan Governments. The Ministry was very unwilling to see this arrangement continued; even if British and American observers were present, search by South American police or customs officials who had no direct interest in the matter could in no circumstances be regarded as a proper substitute for search at a British or Allied contraband base. Moreover a promise of complete immunity from interference en route clearly amounted to an invitation to smuggle contraband, as this could be done without risk once the Axis national had evaded the South American examination.

The Germans were forced to cultivate the somewhat old-fashioned art of smuggling first because they did not command the sea, and secondly because of the effectiveness of the Allied blockade. They had no difficulty during the period of American neutrality in obtaining regular and substantial quantities of mica, industrial diamonds, platinum, and other metals of small bulk and strategical value by means of the L.A.T.I. air routes, over which the British Government could exercise no control. The Germans were of course in a position to export drugs, pharmaceuticals, propaganda material, and similar matter to Latin America either for propaganda purposes or to obtain foreign exchange. This Italian enterprise had been formed after a conference called by Hitler at Stuttgart in 1939. There the Führer's agents were said to have reported that they were not making progress in South America and it was decided to set up an Italian air line operating from Rome to Spain, Dakar, and across to Brazil. The flights stopped in January 1942 with the cutting off of oil supplies, a process accelerated, according to Mr. Berle's testimony before the Truman Committee on 3rd April 1942, by

the State Department's threat in October 1941 to blacklist the Standard Oil Company of New Jersey if they did not discontinue sales of aviation gasoline to the L.A.T.I. and Condor Lines.¹ According to estimates made by the War Trade Department, based on manifests, the freight carried by the L.A.T.I. planes in 1941 was as follows.

Westbound L.A.T.I. Freight Load (1st Dec. 1940-4th Dec. 1941)
(Kilo weights)

<i>Films</i>	<i>Books, Maps, etc.</i>	<i>Medals</i>	<i>Other Gold & Silver Objects & Jewellery</i>	<i>Electrical Materials</i>	<i>Chemical & Pharm. Products</i>	<i>Photo. Materials</i>	<i>Aviation Equipment</i>	<i>Others</i>	<i>TOTAL</i>
1,932·4	5,904·7	21·1	337·2	1,294·1	6,934·7	68·3	605·9	1,783·1	18,881·5

Eastbound L.A.T.I. Freight Load (1st Dec. 1940-11th Dec. 1941)
(Kilo weights)

<i>Mica</i>	<i>Diamonds</i>	<i>Other Stones</i>	<i>Chemical & Pharm. Products</i>	<i>Platinum</i>	<i>Others</i>	<i>TOTAL</i>
10,666·1	4·342	1,745·05	1,860·3	281·7	326·6	14,884·092

After the closing down of L.A.T.I. the Germans had to make use of two sea routes. The more important was that followed by neutral vessels trading between the Iberian Peninsula and Central and South America; the other was that used by neutral vessels trading between the Iberian Peninsula and the West and East coasts of Africa. There were also the airlines across Africa to Spain and Portugal, and a few planes operated between Spain and the Canary Islands.

Platinum was very much the most important commodity involved in these activities. The position in the summer of 1942 was that Germany was believed to need platinum for (1) magnetos for high-flying aeroplanes; (2) scientific instruments; (3) furnaces where reliability of contacts was essential; (4) demolition work and delayed action fuses where it was essential that explosions should not fail through faulty fuses; (5) oxydization of ammonia in the production of nitric acid (probably the most important use). The principal sources of supply were Russia, Canada, and Colombia. Germany needed about 50,000 ounces a year, and had obtained her supplies from Russia until June 1941; she was estimated to have had a year's

¹ *New York Times*, 4th April 1942.

supply in hand when she attacked Russia, and to have obtained an additional 20,000 ounces by L.A.T.I. planes up to the end of 1941. She might secure a small quantity from the Finnish nickel mines, which were due to reopen in June 1942, and some supplies from the collection of scrap within German Europe. But she would clearly need to secure additional supplies by smuggling from the Americas. Lisbon had now become the platinum centre of Europe, and platinum was fetching £30 an ounce there, as against the official market price of £9 in the United States. Platinum smuggled into Portugal was not necessarily for German account; Switzerland was in desperate need of supplies and was prepared to pay any price to secure them, although a large proportion of her purchases would be used for goods to be supplied to Germany. The position in Colombia was that there were many alluvial mines, and all platinum produced in these mines should be sold to a central organization; it would be possible, however, for unrefined platinum to be smuggled out of the mines. All refining in the Americas was done in the United States; in continental Europe there were refineries in Germany and Switzerland.

There was very little information during 1942 about diamond smuggling. After entering the war the United States Government made arrangements to take over the supervision of the industrial diamond trade in the United States after 1st April 1942. The Industrial Section of the British consulate-general in New York had established a close understanding with the diamond merchants there, and it was henceforth to maintain the closest collaboration with American officials, whose system was modelled on the one which the British had worked so well during 1940 and 1941. An American representative was appointed to the Diamond Committee at M.E.W. and the Industrial Section in New York continued to advise London on the grant of export licences, and to investigate the reliability of consignees and the stock position of importers. Theoretically diamond smuggling should in these circumstances have been impossible, since diamond production throughout the world was under Allied control. In practice certain quantities were known to have reached the enemy from South America or from Portuguese Africa, either because they had been smuggled out of the mines or because dealers had in some way secured supplies of industrial stones.

There was also evidence during 1942 of the smuggling of fish skins (from Madeira to Portugal), vaccine, insulin, liver extract, and currency. Mail smuggling was taking place on all the sea routes; a considerable amount of German mail was, for instance, brought up from Loanda to Lisbon.

Although smuggling had to take place after the beginning of 1942

over routes where Allied control was possible, the Germans were not unfavourably placed for developing the traffic. They had foreseen the eventual closing of L.A.T.I. and had taken steps to create a large and efficient smuggling organization, particularly for goods on Transatlantic vessels. Few ships called voluntarily at British control bases for examination; political considerations and the geographical situation of the bases made it impossible for the British to insist on frequent calls. Even when ships were brought in for examination the detection of material of such small bulk was usually impossible without advance information as to hiding places. The rewards of successful smuggling were so high that there was always a steady flow of recruits, even although the Allies could secure the dismissal of detected persons. The Allies were also well aware that although continuous search was a deterrent to smugglers frequent failure to justify search by detection was likely to bring the blockade into disrepute.

The Canary Islands, and in a smaller degree the Azores, Madeira, and the Cape Verde Islands, offered numerous facilities to the smuggler. Most Spanish vessels from South America called at the Canary Islands, and Portuguese vessels from both South American and Portuguese African ports called at the Cape Verde Islands. Swiss and Swiss-chartered vessels used at various times all the islands, and vessels from South America used the Azores and sometimes Madeira. The Canaries were the most dangerous. There were a number of German vessels lying in the outer harbour, where it was possible for submarines to go alongside under cover of night; contraband goods could be landed and forwarded by plane or parcel post, both of which were free of Allied control; passengers could disembark and continue their journey to the mainland by the fast mail steamers which did not come into a control base.

During the second half of 1942 the Ministry could do little more than study the ramifications of this problem, and collect information as to the agents concerned. In May, for example, it was found that members of the crew of the *Serpa Pinto*, which had taken repatriated Axis nationals from Rio to Lisbon, had carried platinum. The Portuguese maritime police had discovered this, but they had no legal grounds for action as platinum was not subject to customs duty in Portugal. In June the *Nyassa*, also with repatriates on board, left Havana for New York, where two careful searches were made by the United States customs, who had received, like the British authorities, reports that platinum was being carried. Nothing was discovered, and the ship sailed for Lisbon on 13th June. It was decided in August that two or three Spanish and two or three Portuguese ships should be searched at Gibraltar or Trinidad during the next few months. As a result a more successful examination took place in

October when the *Monte Gurugu*, carrying a cargo of 5,000 tons of wheat, was intercepted on a voyage from Rosario to Alicante and taken in to Gibraltar. On board, 25 cases, unmanifested and un-*navicerted*, were discovered and the master stated that they contained soap. Examination showed that such things as 140 lbs. of caffeine, 380 lbs. of cholesterol, and 480 lbs. of meat extract had been included with the soap, and a trunk belonging to the second officer was found to have a false bottom, in which cigarettes, false teeth, and 100 bottles of nail varnish were hidden. It was suspected that the teeth might contain platinum rings, but expert examination showed that this was not the case, and that as far as the second officer was concerned this was an ordinary case of smuggling. There was, however, a case for seizure of the other goods. The master of the *Bage*, carrying repatriated Axis nationals from Brazil to Lisbon, made a search of the cabin of the ship's doctor, a Portuguese named Lanca, and in an instrument case with a false bottom found about 500 grammes of industrial diamonds, and 800 grammes of platinum. He refused, however, to hand these over at Lisbon to the Portuguese police, saying that he was taking them back to Brazil. As a result of the *Monte Gurugu* incident a closer watch was kept on ships' stores; the names of various sailors, including certain officers, who were known to have smuggled platinum and other goods were put on the list of undesirable seamen.

At the end of October 1942 it was arranged, with Foreign Office and Admiralty concurrence, to search a number of Spanish and Portuguese ships within the next two or three months. These searches were to take place at Trinidad or Gibraltar and to extend to ship, passengers, and crew, and their respective quarters. The intention was either to inform the master concerned that a call at Trinidad or Gibraltar was a condition of the grant of a ship *navicert*, or to intercept the vessel off the Iberian Peninsula and bring her into Gibraltar. The carrying out of this programme was, however, interrupted in November 1942, when Gibraltar became the scene of more important operations than the search for smuggled goods; three armed trawlers which had continued since April 1942 to work under the Flag Officer Commanding North Atlantic were withdrawn from their contraband patrolling for service in connexion with the Allied landings in North Africa. The problem of smuggling had not, in short, been solved. It was again to tax the vigilance and ingenuity of the blockade authorities in 1943 and 1944.¹

¹ See chap. XIV(v) below.

(iv)

German-Japanese blockade running

But the most serious threat to the Allied contraband controls was thought to be blockade running, an inevitable development of the system as it operated since the summer of 1940. While sanctions under the ship-warrant scheme were sufficient to bring the majority of neutral shippers into outward compliance with the British navicert regulations, it was impossible to patrol the broad waters of the Atlantic with sufficient thoroughness to prevent isolated ships from slipping through, and the rewards for such successful evasion were high. During 1941 the total number of blockade runners to German-controlled Europe from non-European ports was believed to be as follows:

(a) From South America and Japan . . .	21 of 120,414 G.R.T.
(b) From Spanish Atlantic Islands . . .	10 of 53,086 G.R.T.
(c) From Italian East Africa . . .	1 of 7,840 G.R.T.

Of these, 14 of 81,972 G.R.T. were intercepted, 10 (57,573 G.R.T.) coming from (a) and four (24,399 G.R.T.) coming from (b). Of the remainder, 14 of 80,306 G.R.T. were known to have arrived in enemy or enemy-occupied ports, and four more of 19,062 G.R.T. had probably done so. The cargoes carried varied greatly, but included wheat, hides, cotton, jute, manganese ore, petroleum products, castor seeds and other oil seeds, tallow, quebracho, and phosphate rock. On the other hand the enemy was deprived of considerable quantities of goods, particularly rubber and hides, on the intercepted vessels.

It has already been noted that in 1942 no ship appears to have sailed without a ship navicert (except in the case of Peninsula coastal shipping) in circumstances where one was required; but this elimination of blockade running from neutral or friendly countries was balanced by the substantial increase in blockade running between Japanese and German-occupied territory. As Lord Selborne had told the War Cabinet in March 1942, the closing of the Siberian railway in June 1941 had at once increased the importance to the Axis of the direct sea route between Europe and the Far East, and there were a number of sailings from the Far East from the late summer onwards. When Japan entered the war it was known that there were some 17 or 18 vessels in Indo-Chinese waters capable of making a voyage half round the world without touching land, and without coming within 600 miles of an Allied base. Events showed that of the two routes available, Axis shipping preferred the longer one round Cape Horn, although this involved a 17,000 mile passage

without refuelling, while the Cape of Good Hope route of 11,000 miles (from Singapore) did offer one possible refuelling station at Madagascar. French West Africa, French North Africa, and the Atlantic coast of Metropolitan France provided alternative terminal ports more or less under Axis control until they were occupied in due course by Allied troops. The Atlantic ports of northern Spain could also be used for transhipment.

The closing of the Siberian railway also prevented the transport of important hydro-electric plant which had already been completed in Germany for delivery to Japan. During the next nine months the Ministry received evidence that additional heavy machinery supplies—mainly for steel working—for Japan had been completed, and it is evident that the initial benefits to be obtained by the Japanese from any successful blockade running would probably be the receipt of this completed machinery and designs for, and instructions in the use of, industrial plant. These could be built under the supervision of German experts already in Japan. German Europe was also in a position to remedy certain Japanese raw material deficiencies such as mercury and potash, and finished products such as ball-bearings and specialized chemicals; she could also supply what was expected to be the most important Japanese deficiency, namely, the latest types of military and air weapons. Japan on the other hand could supply a wide range of raw materials of vital importance to the war effort, such as oil seeds, rubber, tin, tungsten, and quinine.

However, this was one of the Allies' failures in 1942. There appear to have been three main blockade running seasons for Axis ships during the war. The first was from July 1941 to the summer of 1942; the second in the winter of 1942-3; the third in mid-winter of 1943-4. In June 1942 it was estimated that since 1st July 1941 eleven ships had arrived in occupied ports in the Bay of Biscay from Japan; eight of these had arrived since the beginning of 1942. The cargoes from the Far East were estimated to total between 55,000 and 60,000 tons, including a large quantity of rubber. In the same period six ships left European ports for the Far East. In September 1942 a new series of West/East general cargo vessel sailings began; nine vessels cleared the Biscay ports between that time and the end of November. Three blockade runners from the Far East, the first arrivals since May, entered Bordeaux in November 1942, and in the same month the sailing of tankers to the Far East started. The fats position in Germany was known to be serious, and it was believed that these sailings were in preparation for the importation into Germany of vegetable oils for which bulk shipment by tankers would be the most economical method.

Nevertheless, although the Ministry was fully aware of the

importance of the traffic, and was urging on the Cabinet and the service departments throughout 1942 the necessity for adequate measures of interception, nothing really effective could be done: the reply had to be that operational needs elsewhere made it impossible to supply the ships and aircraft needed for the purpose. During the first half of 1942 the Allied fleets were indeed very much preoccupied in the Mediterranean and the Far East, and the Axis blockade runners scored corresponding successes. While most of the blockade runners entering and leaving the Bay were sighted, none was disposed of by the Allies between November 1941, when the *Odenwald* was captured by U.S. naval forces,¹ and November 1942 when one westbound and two eastbound vessels were intercepted by Allied ships. The plans of the Axis partners in January 1943 for increased collaboration were undoubtedly influenced by these successes, and it was fortunate that by this stage, as we shall see below (Chapter XV), the Allies were beginning to take more effective measures of prevention.

¹ On the legal repercussions of this interception before the United States and Germany were at war see M. Domke, *Trading with the Enemy in World War II*, pp. 241-2.

CHAPTER VI

SWEDEN

WE must now examine the modifications in British economic-warfare policy towards the five remaining European neutrals which followed the concentration of German military strength against Russia and the impact of American belligerency on the movement of supplies. Hitler's preoccupation with the Russian war decreased, for the time being, the likelihood of a German occupation of Sweden; and although there was sympathy in Sweden for the Finns, and renewed German demands for transit facilities, the Swedish Government did not feel itself compelled to modify the essential lines of its established policy of neutrality. Yet the embarrassments of isolation remained. Finland was virtually at war with Russia from 25th June 1941 and from this point, encircled by areas under German control, Sweden had only the Gothenburg traffic to provide a precarious trade channel to the outer world.

For the Ministry of Economic Warfare the main instrument of control was still the Anglo-Swedish war-trade agreement of December 1939.¹ This had restricted Swedish exports of all commodities, either absolutely or to 'normal trade' levels, according to whether they depended upon imported raw materials or not.² But the imports through the Allied controls which constituted in some measure a *quid pro quo* for the restrictions had largely ceased since the German occupation of Scandinavia in 1940. Sweden's annual export of some 10,000,000 tons of iron ore to Germany was the most valuable of all neutral contributions to the German war industries.³ Germany supplied coal, oil, processed goods, and much else in return; in fact from now on something over 80 per cent. of Sweden's imports came from Axis Europe. For the time being the British Government had had to abandon all the ambitious plans of the first winter of the war

¹ E.B., i, 151-2.

² Commodities the export of which was prohibited were set out in a list in Annex A of the agreement. They might be raw materials, derivatives therefrom or waste thereof, or they might be in a manufactured or semi-manufactured form. There were certain exceptions. (1) Certain commodities in list A were marked with an asterisk and called restricted commodities: export was permitted of articles normally manufactured in Sweden where the value of the restricted commodities used in their manufacture did not constitute more than 12½ per cent. (2) The export to approved neutral destinations was permitted in the case of certain Swedish products and manufactures containing prohibited raw materials.

³ And also the most extensive in bulk. The total Russian exports of all classes of goods to Germany under the Soviet-German pact (1939-1941) were 4,541,205 metric tons, according to the Russian figures (cf. E.B., i, 668).

for cutting off these iron-ore supplies; the danger was that Sweden, under German pressure or to supply her own needs, would abandon the restrictions of the war-trade agreement. The fact that she had never given notice to determine the agreement was a matter of satisfaction to the Ministry, for its bargaining position was not strong; it was content for the time being to operate within its terms, regarding its maintenance as in itself a considerable achievement at this stage of the war.¹ During the second half of 1941, apart from some differences over Swedish help to Finland and the transit traffic, discussions were concerned mainly with the details of the British rationing programme. The Swedes accepted, after a good deal of bargaining, the basic lines of the British quota policy, and some of the outstanding problems were cleared up in the important Wallenberg agreement of 19th December 1941. But by this stage the United States had entered the war, and was soon pressing for a stiffer policy than the Ministry believed to be practicable.

There was first a phase of considerable tension over Sweden's help to Finland. On the eve of the German attack on Russia there were believed to be at least four German divisions in Finland, which obviously was now under effective German control, and the British suspended all traffic to Petsamo on 18th June 1941. No further navicerts were granted for ships sailing to Finland. On 25th June the Swedish Government announced its agreement to the passage of a German division from Norway to Finland via Sweden, and the Swedish Prime Minister defended this action in a speech on the 29th. He admitted that the incident was a departure from the traditional conception of neutrality and had been accompanied by misgivings; but he insisted that the concession was non-recurrent and that it did not imply any infringement of Sweden's freedom and independence or any taking of sides between the great powers. The speech produced the most serious Parliamentary crisis of the year. The Conservatives and Agrarians felt that a refusal to help Finland in this instance was unjustifiable, while on the other hand the Social-Democrats protested strongly. The King of Sweden was understood to have thrown his influence into the balance and persuaded all parties in the national coalition to agree to the demand in the interests of national unity. The net result was that unity was preserved, and it could at least be hoped that the emphatic assurances of non-recurrence would make further concessions to German demands for transit less easy to concede. If the predominant feeling throughout the country was still anti-German, Russia was also feared as a predatory

¹ There is a full and authoritative account of Sweden's economic relations with both groups of belligerents in the memoir of the chief Swedish negotiator, M. Gunnar Hägglöf, *Svensk krigshandelspolitik under andra världskriget* (Stockholm, 1958). Chapters 1-7 deal with the pre-war position and developments in 1939 and 1940. M. Hägglöf is now Swedish ambassador in London.

neighbour, and the first instinctive reaction to the Russo-German war was probably one of relief, strengthening into a hope that the two would exhaust each other. Finland's rôle somewhat confused the issue, for there was widespread sympathy with her desire to recover the territory that she had lost to Russia in 1940; but she was considered to be outside the main current of the war, and Swedish representatives did their best to justify limited measures of help as a sentimental issue which need not affect Sweden's general policy of neutrality.

Although the British Government could not accept the position so readily, it had decided before the end of August that it would be unwise and also unnecessary to make too much of the point. On 17th July Mr. Victor Mallet, the British minister, sent a reassuring telegram to the Foreign Office, in which he reported that the Swedish press had on the whole taken the British alliance with the Soviet Government calmly, and was inclined to attach little practical importance to it except as evidence that now 'interests come before ideologies'. He added, 'on the whole I am reasonably satisfied with public opinion in as much as after three-and-a-half weeks of intensive German propaganda, I see no real sign of Sweden becoming more pro-German, though they are undoubtedly on a wave of anti-Russian feeling'. Economic-warfare issues were discussed in London at a meeting of interested departments at the Foreign Office on 21st August, when the whole range of recent Swedish concessions to Germany was reviewed. Matters considered included the lenient treatment of German aircraft flying across or landing in Sweden; the use of Swedish territorial waters by German transport passing between Germany and Finland; the use of Swedish railways for the passage of German troops and war material and of Swedish ship-building yards for the repair of German warships. Points which more directly concerned the Ministry of Economic Warfare were the supply of arms and foodstuffs to Finland; a proposed loan to Germany; the use of Swedish shipping by the enemy; the proposed seizure of Norwegian and other ships laid up in Swedish ports; and the recruitment of Swedes for service in Finland. In the end it was decided that

as our interests demanded that we should maintain friendly relations with Sweden, both because of the intelligence which we received from there and also because we expected to import certain important materials from that country, it was not advisable for us to threaten retaliation in any form, especially as such retaliation would injure our interests, possibly as much as those of Sweden, e.g. the interruption of the Gothenburg traffic, or interference with Swedish ships on the high seas. On the other hand, we had very little to offer Sweden by way of concessions. On the whole, therefore, our object should be to seek

equal treatment with Germany in Sweden as far as this was possible, and at the same time, by friendly representations, to stiffen Swedish resistance to German demands.

But this more or less conciliatory attitude did not preclude pressure on Sweden to balance her concessions to Germany by granting similar facilities to England, and there was some hard bargaining by both sides between July and October. This led finally to Mr. Wallenberg's visit to London, and to the comprehensive discussions which followed.

Precariously, and perhaps surprisingly, the Gothenburg traffic continued. We have seen¹ that the negotiations which began in April 1941 for a resumption of the traffic had broken down owing to the continued German refusal to agree to the routing via the Farøe Island Channel, and that a secret plan had been devised in June between the Swedish authorities and the Admiralty to surmount this difficulty. But in the middle of July the German objection to the Farøe Island route was unexpectedly withdrawn. The British Government had decided early in July to regard the incident of the passage of German troops through Sweden as closed, and not to retaliate by prejudicing the Gothenburg traffic arrangements. Two tankers, *Sveadrott* and *Saturnus*, together with the *Brasil* and the *Stegeholm*, were accordingly able to sail from New York to Gothenburg. The first three were in exchange for three ships which had left Gothenburg in May, while the *Stegeholm* was compensated by the sailing of the *Nordstjernen* from Gothenburg on 21st July. After this the traffic continued for some time without substantial interruption. Problems connected with the routing of the ships were dealt with mainly by the Admiralty.

The recommencement of shipments gave greater reality to the discussions on Swedish import quotas which had continued between the Ministry and the Swedish legation during the early summer. The strict rationing of Sweden in accordance with fixed quotas would not have been compatible with the war-trade agreement, but was imposed as a condition of the Gothenburg traffic arrangements.² The quotas had originally been fixed by the Ministry at the end of 1940 mainly on the basis of the 1938 figures, although with some regard to those for the whole period from 1936 to 1939. The essential aim was to prevent direct or indirect help to the enemy, and there were, therefore, a number of considerations involved, and in particular, (1) whether the goods were upon List A of the war-trade agreement; (2) whether the goods if imported into Sweden would be used in an industry which was largely working for the enemy; (3) the extent of Sweden's own internal production of such goods or

¹ E.B., i, 630-1.

² *Ibid.*, i, 629-30.

similar goods; (4) whether alternative goods produced in Sweden could be used as substitutes; (5) whether the goods represented a serious German deficiency; (6) whether Sweden had made arrangements to import the goods from other countries within the blockade, by trade agreements or otherwise; (7) whether the goods were required for Sweden's own defence purposes. Such varied considerations gave the Ministry, in this and similar negotiations, ample ground for manœuvre if it wished to oppose Swedish requests, but it must be remembered that the quotas represented the amounts to the entry of which there could be no objection on *blockade* grounds; the fixing of a quota was no guarantee that the goods or the necessary shipping would be available.

The quotas were strictly administered during 1941. When they were first established, Sweden could and did import goods via Vladivostok. There was no British control over such imports and a number of Swedish quotas were deliberately fixed at nil in the knowledge that goods of that kind were being imported across Russia. Russia's entry into the war stopped this traffic, and imports via Petsamo and the Persian Gulf also ceased to be possible. Thus in the later months of 1941 Sweden was presumably feeling the effects of the blockade more acutely than before, since even five ships a month could not enable her to carry each month the full amount of all the quotas.

In August 1941 the quota figures for the last quarter of 1941 were fixed; there was little change save that no wheat was allowed to be imported because of recent Swedish exports to Finland. Copper had been given a nil quota in July, and a request for a reversal of this decision in September was refused in view of her own production of the metal. In October a nil ration was fixed for mica splittings, mica being already a nil ration. Rape-seed and castor-oil, being of use in mixing with lubricating oils, were made 'referred items'. Sweden's rubber requirements were discussed at the meetings of the Anglo-Swedish Joint Standing Commission in August and September, and in October she asked for the nil quota for rubber to be withdrawn as supplies had been nearly used up and she could now ship 400 tons from Singapore. This request was refused owing to supply difficulties, and to Sweden's promiscuous exportation to Finland. Cadmium and nickel had a nil quota, but in September and October the Swedish Government pressed for permission to import 115 tons of nickel and 14 tons of cadmium from Japan.

The circumstances in which this request was made illustrate the peculiarities and ingenuities of Sweden's import policy at this stage of the war. The goods had been shipped from the United States to Japan early in 1941 with a view to their being forwarded to Sweden via Siberia and Russia, thereby evading the British prohibition. American delay in granting export licences made it impossible for

them to pass through Russia before the German invasion in June, and by September the Swedish Government was apprehensive lest they should be requisitioned by the Japanese; it therefore asked the Ministry for navicerts to allow the goods to be shipped by sea to Gothenburg. This faced the Ministry with an unattractive issue. If the minerals came to Sweden they might benefit Germany;¹ if they stayed in Japan they would be either seized or bought by the Japanese. The Ministry's experts were agreed (after some argument) that both countries had shortages, but that Japan's need was probably greater; the minerals could not be used against Great Britain unless Japan came into the war, but on the other hand, if they came to Gothenburg, Sweden would perhaps use some at least for her own requirements. Was the chance of Germany's invading Sweden less than the chance of Japan's coming into the war? The debate was interrupted by the sudden departure from Japanese waters in October of the ship, the *Dagmar Salén*, that was to have carried the goods. Discussion continued, and on 26th November the Ministry offered a bargain whereby Sweden could import the cadmium and 42 tons of the nickel, on condition that the remainder of the nickel should be stored at a British port and that the 42 tons should be used only for the manufacture of material for the Swedish armed forces. Before any decision could be reached Japan had entered the war.²

Discussions about petroleum were a little more satisfactory to the Swedes, but not more expeditious; they foreshadowed later supply difficulties and the use of this commodity by the Allies as a bargaining weapon. Earlier in 1941 Sweden had been granted a quota of 15,000 tons a quarter of petroleum products to be imported into Gothenburg, starting from 1st April 1941. This quota was to be made up of 12,000 tons of fuel oil for the Swedish navy, 2,500 tons of aviation spirit for the Swedish air force, and 500 tons of lubricating oil for both services. This concession was in exchange for a secret *quid pro quo*, and was subject to a satisfactory solution of the difficulties between Sweden and Germany regarding the exchange of ships and the maintenance of the Gothenburg traffic regulations. In addition, 1,000 tons of aviation spirit were to be allowed for A/B Aero-transport on the undertaking that British commercial aircraft would continue to be fuelled in Sweden, that the Swedish civilian air ser-

¹ 'Nickel unwrought and scrap' appeared on List A of the Swedish war-trade agreement. Cadmium was understood by the Ministry to be a derivative of the raw material of zinc, and zinc was on List A. It was possible, however, for the zinc and cadmium to benefit Germany either through a German occupation of Sweden, or through the provision whereby it was permissible for the nickel or cadmium to form part of an article normally manufactured in Sweden and requiring small quantities of either.

² The Swedish legation made its first request for navicerts on 19th September. The relevant file contains 42 minutes on the case between this date and 25th November; it passed through the hands of nine officials, the two Directors, the Parliamentary Under-Secretary, and the Minister. It is hardly an example of the Ministry at its best.

vice would be maintained and that a service between Stockholm and Teheran would be started. There was great anxiety to prevent any benefit, direct or indirect, to Germany. In August the British suspected that the aviation spirit might be used for flights to Germany or German-occupied territory (including Finland), but the Swedes gave a satisfactory reply on this point. At the same time it was realized that the Iranian service would not materialize. There was some difficulty in securing the necessary supplies to maintain the bargain, for the State Department was inclined to raise objections. By October, Sweden had not yet received the full quota; shipments had indeed been behindhand ever since the sinking of the S.S. *Castor* in the first quarter of 1941 with 12,000 tons of fuel oil. Then there was a prolonged argument over toluol: the British hoped that the United States Government would maintain its earlier refusal to grant licences to replace 500 tons that had been sunk earlier in the year, but a licence for 580 tons was granted on President Roosevelt's personal recommendation. The Swedish legation in London seemed willing to regard this 580 tons of toluol as an alternative to the same amount of aviation spirit. The Ministry disliked carrying forward unused quotas, and its Enemy Resources Department disliked the idea that toluol should be taken as an alternative to aviation spirit. But it was evident that the balance of the fuel oil must be allowed, as it was part of a specific grant, and eventually, on 22nd October, the Swedish legation was told that since toluol was without a quota, the 580 tons of this oil must be subtracted from the allowed aviation spirit.

It was, however, in connexion with Swedish exports to Norway, Finland, and Germany, with the processing of Swedish goods abroad, and with the refusal of the Swedish Government to allow certain Norwegian ships to leave Gothenburg for England, that the main Anglo-Swedish difficulties arose in the autumn of 1941. Each of these issues had its own importance as a weakening of the blockade, but their overall significance as possible symptoms of a general yielding to German demands was yet more ominous. For there were reports at the end of August that fresh Swedish-German trade talks were to begin shortly, and that Germany would press for increased deliveries of Swedish iron ore, ferro-chrome, and various finished products and consumer goods.

News was received at the Ministry on 9th July that Sweden was sending food to Finland, including 5,000 tons of wheat and rye, commodities in which the Swedes themselves were very deficient. Again, on 25th July, the Swedes announced that certain medical supplies, including some for the civilian population, as well as some 50 tons of beans and 240 barrels of salted herrings, had been sent to Finland. Further foodstuffs were sent during August, and when, on

the 12th, Mr. Foot asked the Swedish minister to give an undertaking that these supplies would cease, there was no reply. The Ministry accordingly refused to issue navicerts for certain commodities. In the Joint Standing Commission in London M. Gisle could urge on 28th August the strong feeling of his countrymen that they must support their Scandinavian kinsmen, and the British representatives could only reply that although they understood this point of view, they could not sanction the importation into Sweden of any goods of a 'similar type' to those exported from Sweden. During September the Swedish request to be allowed to send medical supplies for Finnish and Russian wounded was refused, as it was not certain that these supplies could not be obtained from Germany; but it was agreed that a collection of foodstuffs and clothing might be sent to Estonians of Swedish origin as long as the goods were distributed under the control of responsible Swedish officials. It was learned in October that the Swedes were surrendering unused food coupons in order to enable food to be sent to Finland. But the Ministry decided that it must maintain its refusal to issue navicerts for the commodities involved—flour, sugar, edible fats, and meat—until the Swedes gave a guarantee that no goods imported through the British controls would be re-exported to Finland.

The problem of 'processing' also proved troublesome. Under the war-trade agreement, the Swedes had been entitled to export given amounts of certain commodities for processing in Germany for a period ending 1st July 1940. This concession had not been formally renewed, but they had regarded it as continuing in force until 26th March 1941, when they had received a letter pointing out that the British authorities did not agree to this interpretation. Between July 1940 and March 1941 export licences had continued to be issued by the Swedish authorities for certain stated commodities; any excess quantities of tin during this period had been declared to the Commission, which had also given its sanction for export of commodities for processing in other countries. After the receipt of the letter, however, licences had not been issued for goods to be processed in Germany without the submission of the case to the Commission. In some instances delay in giving the decision had been long and in others approval had not been forthcoming; in certain urgent cases where the processing had not been done in Sweden the State trade commission had taken the law into its own hands and issued the licences. The Swedes in these cases could plead extreme economic need; the British, while emphasizing the undoubted fact that the terms of the war-trade agreement had been broken, could say that in fact the vast majority of Swedish applications had been granted. This was a matter which yielded to treatment during Mr. Wallenberg's negotiations later in the year.

The British also sought to restrict the exportation from Sweden of cellulose tanning, which was believed to be in limited supply in Germany, but the Swedes continued to argue that cellulose tanning was a purely Swedish product and therefore outside the terms of the war-trade agreement.¹

There was, finally, the question of twelve Norwegian ships at Gothenburg. The Swedish authorities had gained some credit with the British and their own public by refusing to hand these ships over to Germany or to their former Norwegian owners. On the other hand they did not wish the ships to depart for Great Britain for fear of German retaliation. The twelve vessels had been demised by the Norwegian Government to the British Government, which had appointed British masters. But there seemed reason to believe that the Swedish authorities were seeking by legal delays to prevent the departure of the vessels for England. Although this matter was strictly, perhaps, outside the field of economic warfare it had its psychological effect in that field, and combined with the other causes of friction to give a rather unpropitious start to the negotiations of M. Marcus Wallenberg in London in November.²

M. Wallenberg secured an early success after raising, in the preliminary discussions, the question of relief sent in the form of Swedish Red Cross parcels to Finnish, Belgian, and Estonian persons of Swedish origin in Germany, as well as to Swedes domiciled in France. For a time the Ministry maintained its earlier refusal to agree to the traffic, and the Swedes said in some exasperation that the 'grotesque decision' to refuse the passage of the parcels must be one of 'some minor official' of the Ministry. It was difficult enough for them to refrain from helping the Finns and Norwegians, but it was preposterous to ask them 'to refuse to help their own people who were in Germany for legitimate purposes'. In order to soothe the Swedes during negotiations over more vital matters, the Ministry allowed these food parcels to be sent during December. But the quantity and number of persons had to be limited to the figures provided by the Swedes.

On the main issues the British delegates took their stand on the war-trade agreement. The re-export to Finland of goods of a type imported through British controls, or of goods of a similar nature produced in Sweden, was, they claimed, contrary to the agreement, in which the term 'Germany' included any territory for the time under German occupation or control, or allied to Germany. An assurance was required which would cover 'all goods imported

¹ Another matter of some concern to the Ministry was the fact that the name of the Swedish Reserve Supply Board often figured on navicerts as the ultimate consignee, thus opening the door for possible supply to illegitimate recipients.

² Hägglöf, *op. cit.*, pp. 186-8.

whether as raw materials or as derivatives or waste thereof, or in manufactured or semi-manufactured form'. The Ministry repeated earlier requests for monthly statistics of Swedish imports and exports divided by commodities, and pointed out that in the application for navicerts the name of the purchaser and place of destination was needed. These had frequently been concealed by the naming of the Swedish Reserve Supply Board as ultimate consignee. It also complained that in some cases certificates of origin and interest were being sent to forwarding agents, or other persons not the original manufacturer or producer of the goods to be transported, a practice that was contrary to the Carlsson-Mounsey letter of 7th December 1939.¹

The Swedes on their side raised the question of the right to renew navicerts and carry forward unused balances from one quota period to another; but the British had to reply that if a quota were not shipped it was because of lack of space, and that to accede to this request would only result in the given supply being silted up with the stocks for the new period. It would also enable six months' supplies being shipped at one time—a thoroughly inadvisable course, save in specially permitted cases. The Gothenburg traffic ought to be limited to four ships a month and the necessary tankers, and the quota limited to a three, rather than a six-monthly period. The Swedes also asked for increases in a number of quotas, and suggested that applications for export quotas for processing should not in future be refused if the manufactured article was not to be re-exported or used in any way for the enemy's benefit.

A large measure of agreement was reached as early as 10th November. In effect, Sweden's agreement to recognize Finland as a belligerent and to extend List A was to be balanced by increased quotas. Final agreement was reached on 18th–19th December and the official Swedish acceptance was received on 31st December. The United States, now a belligerent, was notified accordingly. The Swedes consented (1) to recognize Finland as enemy-occupied since 2nd August 1941 and consequently to prohibit exports to Finland of goods on List A of the 1939 Agreement; (2) to the addition to List A of certain commodities including meat, oils and fats, synthetic resin, shellac, grass and clover seeds, carbon black solvents, rubber manufactures, animal fodder, and natural abrasives. These prohibitions were not to apply to licences already granted. The British agreed (1) that the existing Swedish quota of 15,000 tons of petroleum products per quarter should continue for the first three quarters of 1942 with an additional 15,000 tons for the first quarter in lieu of the quota for the fourth quarter; (2) that additions should be made to certain quotas (although in many cases these represented merely the rein-

¹ E.B., i, 150, 686.

statement of quotas previously reduced). An exchange of letters specified certain quotas as having been reduced in consequence of the Swedish refusal to put the goods on List A; recorded the Swedish right to suspend their assurances so far as they affected Finland, if the Gothenburg traffic ceased for more than three months, or if the Finns ceased to be enemies; tightened up some laxity in the Carlsson-Mounsey Agreement relating to certificates of origin; recorded a new procedure for dealing with applications to export goods to the enemy for processing and return; and recognized the British right to receive such statistical information about Swedish trade as might be deemed necessary.

The Wallenberg agreement was thus a redefinition of Sweden's position within the terms of the war-trade agreement of December 1939. Simultaneous Swedish negotiations with Germany produced an agreement on 19th December 1941 in which the essential conditions of Swedish-German war-time trade remained similarly unaltered.¹ In this case, however, Sweden had been under considerable pressure, and the trade arrangement between the two countries appeared to represent a defeat for the more extreme German demands. The negotiations had started on 1st September 1941 between delegations led by M. Gunnar Hägglöf, the head of the Economic Department of the Swedish Foreign Office, and by Dr. Walter, *Ministerialdirektor* of the German *Reichswirtschaftsministerium*, assisted by Dr. Ludwig. After a close examination of the trade and payments data lasting for three weeks the fact was established that 'in spite of all the difficulties' there had been 'a not inconsiderable increase' in the total trade between the two countries during the year, in the words of a statement issued by the Swedish Ministry for Foreign Affairs on 23rd September. Sweden, as a result of these discussions, granted Germany an advance of 100 million kronor on the clearing until the end of 1941. This announcement confirmed the general impression of American and British observers, who were handicapped by the fact that Swedish statistics no longer gave particulars of Swedish exports to, and imports from, individual countries. Until a year previously some indication had been given, in the case of Germany, by the fluctuations in the balance of the Swedish-German clearing, but regular publication of this material had also been suspended. But as Swedish foreign trade had been overwhelmingly with Germany since April 1940 the monthly totals of imports and exports could be taken as establishing a substantial increase of exports to, and decline of imports from, Germany, with a considerable decrease in German exports of coal and coke.

These facts foreshadowed German demands for credits, but

¹ Hägglöf, *op. cit.*, pp. 198-209, gives the Swedish story. My account, which is in substantial agreement, is based on the information available to M.E.W. at the time.

M. Hägglöf assured the British commercial counsellor on 28th August that Sweden would at least resist strongly any demand for outright credits, partly for political reasons, partly because credits to Germany would be bad business—the chance of repayment would be slight. When the negotiations were continued in Berlin from 3rd to 14th November a demand for Swedish credits was duly made; the Swedes refused to give a government loan or a further clearing overdraft, but offered facilities for credits by individual Swedish firms. This would have left the firms to carry a substantial risk, and they could be expected to reduce their business with Germany as long as the clearing situation remained unfavourable. Accordingly the Swedish offer was refused, but it was agreed that negotiations should be resumed at Stockholm on 27th November. It was admitted by the Swedes that in spite of their firm attitude on the credit question there had been no marked political pressure by the Germans.

The negotiations in Stockholm produced some further prolonged examinations of the trade exchanges between the two countries, from which it emerged that the clearing situation was better than had originally been expected, owing to a year-end spurt in German deliveries of commercial iron and especially of coal and coke. The latter were expected to reach 5 million tons for 1941, and the same amount was promised for 1942.¹ For a time therefore negotiations could proceed smoothly, and were mainly concerned with the price question. Agreement was reached in principle for the interchange of German coal, coke, and iron against Swedish iron ore with the same quotas for German exports as in the 1941 agreement, and with increases of 70 pfennig a ton for coal and coke and 4 RM for commercial iron; there was to be a corresponding adjustment in Swedish prices resulting in an average increase of about 1 krona a ton for iron ore. But then, on 11th December, the German delegates, under sudden instructions from Berlin, reverted to their demand for a straight government credit of from 300 to 500 million kronor, and stated that they were no longer prepared to accept any alternative arrangement such as a system of private credits partially guaranteed by the Swedish Government. Their argument was that in spite of the apparent improvement in the clearing situation a large credit would still be necessary because Germany would expect Sweden, in 1942, to supply various additional commodities such as producer gas apparatus² as well as increased quantities of timber and other products and equipment. They also argued that the supply of coal for Sweden would entail a great effort on their part, and that coal

¹ Deliveries during 1941: 3·2 million tons of coal, 1·6 million tons of coke, 230,000 tons of commercial iron, 80,000 tons of coke pig iron. A press communiqué from the Swedish Ministry for Foreign Affairs on 15th December 1941 stated that the quotas for 1941 of cellulose, wool, potash, salt, soda, and various other chemicals, had also been completed.

² Presumably for the Russian front, owing to oil shortage.

should be regarded as 'an exceptionally valuable commodity almost as precious as gold'. In return for the coal which was to be supplied relatively cheaply they would require facilities for obtaining Swedish goods on easy terms. The only alternatives would be for the Swedes to pay a much higher price for German coal (an increase of at least 25 per cent.), without any corresponding increase in the price of Swedish ore. The Swedes, however, refused to consider either higher coal prices or a straight government credit; the Germans kept up the pressure for some days, but then abruptly announced on 18th December that they would accept the Swedish proposals, provisionally and under protest. The main documents were signed on 19th December.

A solution of the deadlock—and perhaps a face-saving device—had been found in a German undertaking to supply Sweden with substantial quantities of war materials. These were understood by the British legation to include 100 howitzer guns (of 105 millimetre) and ammunition, together with 2,000 machine guns, not of the latest types. Germany was to receive for this material a credit of 85,000,000 in the clearing account, which would thus liquidate a large part of the 100,000,000 credit recently granted by Sweden. Otherwise the agreement was understood to provide for the exchange of German coal, coke, and iron against an equivalent value of Swedish iron ore in approximately the same quantities as in 1941, but subject to $4\frac{7}{8}$ per cent. price increase on both sides. Although it was known to the British that Swedish exports had not been limited strictly to the 'normal trade' figures of 1938 as laid down in the war-trade agreement it was not known at the time that in the agreements of 19th December 1941 Sweden promised to disregard these figures, and that iron ore was specifically mentioned in this connexion.¹ The text of the agreement anticipated Swedish delivery of 10 million tons of iron ore during 1942.

It was assumed that the proposed purchase by Germany of Swedish machinery (including producer gas apparatus), ball-bearings, stone, wood pulp, and paper would not be adequately counterbalanced by corresponding German deliveries of machinery and miscellaneous products. It was therefore agreed that for these goods exports would

¹ In the agreement for 1940 concluded in December 1939, iron ore exports to Germany were limited to 10,000,000 tons, which was regarded by the Swedish Government as the 'normal' trade figure. In the Swedish-German agreement for 1941, concluded in December 1940, Sweden had declared that iron ore exports would not be limited to that figure. The Swedish Government however relied on various devices, such as the delaying of exports, to prevent any considerable increase beyond this figure. The matter is referred to in the following terms in the text of the Swedish-German agreement of December 1941. '*Schwedische Ausfuhrregelung im Jahre 1942*. 1. Die schwedische Ausfuhr nach Deutschland wird wie seit Juni 1940 nicht mehr auf die Ausfuhrmengen des Jahres 1938 begrenzt werden. Die Ausfuhrmöglichkeiten werden vielmehr nur noch durch die schwedische Versorgungslage bestimmt. 2. Bei Eisenerzen wird die Ausfuhr nicht begrenzt werden . . . (Protokoll über Besprechungen des deutschen und des schwedischen Regierungsausschusses für Fragen des Zahlungs- und Warenverkehrs zwischen Deutschland und Schweden vom 28. November bis 19. Dezember 1941.)'

depend on the willingness of Swedish firms to grant credits up to 18 months, subject, however, to 50 per cent. cash payments before delivery. Of the balance, the Swedish Export Credit Guarantee Department was to guarantee 50 per cent. in the case of ball-bearings and machinery, and 60 per cent. for the other goods.

In general it appeared that Germany was still getting all her essential requirements from Sweden, including iron ore and—a matter of great interest a little later in the war—ball-bearings. There were only two points in the negotiations that the Ministry could regard with some measure of satisfaction. In resisting the German demands for credits the Swedes had deprived the Germans of a real economic advantage which would have resulted from reduced German counter-deliveries, with corresponding saving in raw material and manpower. The Swedish success could be contrasted with the position in Switzerland, where Germany had received a total of 850 million francs credit.¹ At one point, earlier in the year, the Swiss delegates were said to have asked the Germans why they always forced Switzerland to give credits while leaving Sweden alone, and the reply had been that it would be Sweden's turn next. A further small satisfaction to the Ministry was evidence of German shortages resulting from the Russian war.

A very fair measure of Anglo-Swedish agreement seemed to have been reached in the Wallenberg discussions. Certain additions had been made to List A, certain new quotas added and former quotas amended, and the favourable treatment accorded to Finland under the war-trade agreement had been discontinued. But the entry into the war of the United States and Japan almost immediately worsened the supply position: and by the spring of 1942 the Swedish Government was seriously perturbed to find that not only were these difficulties interfering with the carrying out of the navicert-quota programme, but that the United States Government was apparently unconvinced about the basic right of the Swedes to any supplies at all.² The Ministry had been uneasy about the supply position from the start. In the letters exchanged at the conclusion of the negotiations on 19th December 1941 the Swedes had requested the Ministry to assist them in maintaining their supplies from overseas, and it had been pointed out in reply that the entry of the United States into the war would increase the shortage of goods and shipping and that in certain cases it would be difficult or impossible to assist. It might even be necessary to refuse navicerts for supply reasons. The Ministry

¹ See p. 210 below.

² For a good Swedish survey of Anglo-American blockade policy see B. Steckzén, *Svenska Kullagerfabrikens Historia* (Göteborg, 1957), pp. 563–8.

promised nevertheless to do what it properly could to overcome any Swedish difficulties in obtaining export licences and shipping space, both in the United States and in Central and South America.

Rubber, hides, skins, and petroleum speedily supplied examples of the new shortages. The British authorities had agreed before Pearl Harbour to release 400 tons of rubber for importation into Sweden. The Swedes however delayed, and in the meantime the Japanese declaration of war completely changed the rubber situation in British eyes. The Swedes pressed for the release of an equivalent 400 tons from Ceylon, but, as an official of the Ministry remarked, it was quite impossible to say what the position in Malaya might be in a few months' time, and it was 'at least possible that these 400 tons from Ceylon [might] be worth their weight in gold'. Mr. Dalton wrote to the Swedish minister on 29th December saying that there was not much hope that the rubber would be released. But Sweden at once offered to put at the disposal of the British several thousand tons of shipping space upon a Swedish ship proceeding from the East Indies to America, and the Ministry of Supply accordingly agreed, subject to certain conditions, to the shipping of 400 tons of rubber from Ceylon. Rubber, however, continued in the forefront of the Swedish requirements. A further 400 tons and some tyres, which the Swedes had bought and paid for in Brazil, were discussed in the following May 1942, but navicerts were refused on the ground that the rubber resources of the United Nations were pooled under the control of the Combined Board, and the matter was not the concern of the British alone. Later Swedish proposals during the winter of 1942-3 were rejected on supply grounds, or because of enemy (Japanese) interest. Hides and skins were, however, the chief talking point in January 1942, and brought the question of Sweden's treatment to a head.¹

The Ministry had been concerned since the middle of 1941 about the extent of Swedish imports of these goods, which were apparently due to the fact that Swedish home production was mainly of light hides, and that a genuine need existed for the heavier qualities for boots for soldiers and agricultural, forestry, and other workers, and for winter use generally. The demand cut across Allied needs. However, the quota of 3,000 tons of hides and skins had been allowed in May 1941, on condition that domestically produced hides, skins, and leathers were not exported. In August 1941 the quota for tanning materials had been fixed to cover only the bare needs of home-produced and imported hides. Large Swedish purchases of hides in Uruguay were reported in September, and in October a reduction of the quota for hides and skins had been considered. In December, after America's entry into the war, the State Department showed

¹ Hägglöf, *op. cit.*, pp. 210-12.

anxiety about the Uruguay purchases, and asked the Ministry to limit the quota, and on 20th January 1942 the Swedish legation was told that the Ministry was unable to issue navicerts for heavy hides in spite of the fact that these were covered by the quota for the first quarter of 1942.

This led to weighty protests. At a special meeting of the Joint Standing Commission on 27th January the Swedish representative insisted that the heavy hides were absolutely indispensable for the equipment of the Swedish Army, and that the British refusal was contrary to the letter and spirit of the war-trade agreement; the Swedish Government failed entirely to understand the grounds on which the Ministry based its right to refuse and the case was aggravated by its coming so soon after the meetings of the Commission in December. The British representatives firmly maintained their position, although they found it an embarrassing one in some respects. At the Swedish request a formal statement of the British Government's policy was prepared; the text, as it was finally drawn up after a number of amendments,¹ was given to the Swedish members of the Commission in Stockholm on 13th February 1942. The memorandum explained that (1) the entry of the United States into the war and its enormous armaments programme had inevitably raised the demand for certain commodities to such a height that available supplies would hardly suffice for Allied needs; until a survey of the available supplies had been completed all stocks in short supply were unavoidably reserved for the Allies. (2) Arrangements were in contemplation for allocating all supplies available; pending the conclusion of these arrangements, any purchases by other countries had to be discouraged as likely to complicate the situation. (3) When the supply survey had been completed, H.M. Government would do its best to ensure the allocation of essential supplies to Sweden in so far as this could be arranged without prejudicing the Allied war effort. (4) H.M. Government was, of course, very willing to explain to the United States Government, as soon as practicable, the reasons for which the Swedish Government were pressing for the issue of navicerts in certain cases; alternatively it would fully appreciate the Swedish motives in wishing to discuss their problems directly with the United States Government. (5) H.M. Government were glad to reaffirm that they regarded the various quotas fixed in the existing agreements as still valid and appropriate, subject only to the overriding consideration of shortages affecting the equipment of the Allied

¹ The original draft was amended in the Ministry in order to avoid any appearance of criticism of the United States; then shown informally to the Swedish minister, who suggested that it be made to refer to supplies generally, and not merely to hides; then copiously revised in accordance with Mr. Mallet's suggestions following the representations of a senior Swedish Foreign Office official. It was assumed that these changes would make the document rather less of a shock to the Swedish Government.

forces. (6) In the meantime H.M. Government had been glad to grant the Swedish Government's request regarding the use of a fifth ship monthly for the Gothenburg traffic.

Two paragraphs of the original memorandum, which the Swedish officials had said that they would not be able to communicate to the Swedish cabinet, were given to the Commission by the British commercial counsellor orally. They were as follows:

There are many indispensable requirements which Sweden cannot obtain from South America, notably mineral oil. Sweden is dependent on the United States for this and other vital necessities, which His Majesty's Government fear that the United States Government would see great difficulty in releasing in the present circumstances.

Moreover, the United States Government can clearly exercise considerable influence on the Argentine and Uruguayan Governments who may well be reluctant to grant at present any export licences for hides or other commodities in short supply. The issue of navicerts would in that event prove to be of no practical advantage to Sweden.

After this the Swedish authorities agreed to make no further purchases except through British agency, and said that they would not at present approach the United States Government direct but would prefer to rely on British good offices. They did, however, in a long memorandum to the United States legation on the following day (14th February), point out their difficulties in obtaining supplies: the Anglo-Swedish arrangement of December 1941 had included 'new important restrictions on Swedish exports', but immediately after came the refusal of Great Britain to grant new navicerts for rubber, rubber products, wool, hides, and hemp. 'From the Swedish as well as the allied point of view it must be considered essential that some arrangement should be found by which the belief in agreements freely entered into should not be shaken. This principle of mutual trust is, of course, obvious in the interests of all concerned.'

But there is no reason to think that this reproachful note made any impression on the blockade authorities in Washington, whose resentment at Swedish iron-ore and other exports to Germany was growing. Some divergence between the British and American attitudes had thus appeared, and could not be entirely concealed from the Swedes.¹ During February the Ministry felt that it was desirable, 'for political and other reasons', to meet some of the Swedish requests. It was finally agreed that the 400 tons of rubber should be allowed to proceed on the *Vasaland* to Sweden, and the Ministry secured the concurrence of the American authorities in granting navicerts for a considerable quantity of hides and wool and for 100 tons of dynamite glycerine, the latter subject to an assurance that it was for Swedish

¹ Hägglöf, *op. cit.*, pp. 212-13.

defence purposes only. Another decision of some importance was the grant of navicerts for just under 3,000 tons of fat salted pork for the lumbermen of Northern Sweden in fulfilment of the arrangements whereby Sweden in the previous December had put meat on List A of the war-trade agreement.¹ But while the Ministry was thus proving fairly accommodating, the Swedes complained that United States export licences were still hard to obtain, and that the American authorities were asking for information of every kind which had already been supplied to the British and on the basis of which the quotas had been agreed in December 1941. The Ministry sent a tactful message to the embassy in Washington saying that it was ready to give the United States Government all the information in its possession regarding Sweden; later in March it said that the Swedish quotas agreed to in December, after full consideration, were fair, but far from generous. Figures supplied to the new Combined Raw Materials Board represented minimum Swedish requirements; it did not seem unreasonable that the United States Government should trust the Ministry's judgment, and decide applications solely on supply grounds. At the beginning of April the Swedish authorities were still holding back their purchases of wool and hides for the third quarter and 800 tons of hides of the quota for the second quarter had still to be bought; the Ministry pointed out to Washington that a request to the Swedes to continue to hold off the market would involve some obligation to supply them.

The Joint Standing Commission in London agreed on 2nd April that an American representative should be invited to attend future meetings of the Commission. The Swedish viewpoint had the general support of the United States minister in Stockholm; he supported a suggestion, which had apparently been first made by a British official, that it was desirable to negotiate a tripartite agreement in place of the existing Anglo-Swedish war-trade agreement. The invitation to appoint an American representative to the Joint Standing Commission seems to have been lost sight of in the State Department for some time; it was eventually accepted on 1st June.² In the meantime there had been further attempts to explain things to the Americans; the Ministry drew up a long account of the development of Anglo-Swedish relations since the signature of the war-trade agreement in 1939, and the conditions and principles affecting the drawing up of the quotas; the Swedish embassy in

¹ The Ministry had also agreed to a Swedish request for navicerts for a gift parcel service from individuals in U.S.A. to friends or relatives in Sweden. Ten tons a month were allowed. Navicerts were issued for such consignments for January, February, March, and the first half of April 1942. The arrangement continued under the U.S. export licensing arrangement.

² A United States coopted member sat on the Stockholm Commission from the beginning of May.

Washington presented a statement of its own version of these developments to the State Department sometime in May.

But agreement was hard to reach, and by the end of the year was scarcely any nearer. While the British Government continued from April until October to do its best to influence the interdepartmental discussions in Washington in Sweden's favour, it was pressing demands of its own on the Swedish Government, and these did something to encourage the American resisters. Both governments however appear to have underrated the extent of Sweden's stand against Axis pressure. The Ministry continued to renew the blockade quotas, with certain modifications, for each of the three remaining quarters of 1942, but it did not follow that the Swedes were always able to secure American export licences even for these limited amounts.

The opportunity for British pressure arose on 2nd April 1942 when Sweden asked (through the Joint Standing Commission) for an increase in the navicert quota for petroleum products from 15,000 to 30,000 tons a quarter, together with the right to effect exchanges between different kinds of petroleum products within the limit of each quarterly quota. The interested British departments, and, after a strong lead from the State Department, those in Washington, agreed that the increase was desirable in principle; in other words, they accepted the Swedish plea that an increased quota of oil was necessary for defence purposes and even for the training of the existing Swedish forces, and that it would strengthen morale and public opinion. The amount involved was too small to provide for prolonged resistance to a German attack, but it would for the same reason not benefit the Germans greatly if it fell into their hands. The British Government was anxious, therefore, to see the oil deal go through independently of the general supply discussions. It decided, nevertheless, that the occasion should be used to press some counter-claims, and these were given by Sir Charles Hambro to a member of the Swedish legation on 11th June. Sir Charles spoke frankly, leaving no doubt that his government intended to drive a hard bargain, but explaining also that if a full measure of agreement could be reached Sweden might even be able to import more than the extra 15,000 tons of oil a quarter. The British demands were as follows:

1. A formal guarantee from the Swedish Government that it would limit to specified figures the amount of war material transported across Sweden to Norway and Finland for German account and would not allow the Germans to include petroleum or petroleum products in such war material.
2. A further guarantee that it would limit to definite figures the number of naval, military, and air personnel similarly transported for German account.

3. The furnishing by the Swedish Government of detailed statistics regarding the transport of German troops and material across Sweden.
4. The total prohibition of the export of arsenic from Sweden for the duration of the war.
5. The dropping of a Swedish demand for expulsion of two British representatives from Sweden.

The first three points arose from the agreement which the Swedish Government had been forced to make in July 1940 to allow the Germans the passage of certain quantities of troops and stores.¹ It was believed that the quantities originally fixed might have been exceeded, and that if Sweden gave figures and guarantees the position would at least be stabilized. Arsenic was particularly suitable for the manufacture of poison gas, and the Germans were pressing for Swedish exports. In 1939 the Swedes had, without tying their hands, given the Ministry to understand that arsenic would not be exported, and it appeared that no exports had, in fact, hitherto taken place. It was, however, the fifth point that foreshadowed the main issue in the oil negotiations.

It arose in connexion with the twelve Norwegian ships, which had already been the cause of some tension between the two governments in 1941.² The story of the ships and their adventures can be briefly summarized at this point. After they had been chartered on demise charter to the British by the Norwegian Government, certain Norwegian owners, acting under German pressure, had in September 1941 brought actions against the British Government and the British masters of the ships, claiming that they had no right to the vessels. By order of the Gothenburg court, bank guarantees were required from the claimants to the amount of 500,000 kronor for each ship, and by the beginning of October all twelve had been arrested.³ The case was taken to various courts, and finally the British Government won its case in the Swedish Supreme Court on 17th March 1942 and all the vessels were released. They contained valuable cargo, such as ball-bearings and machinery, and an attempt was made on 31st March to get them away to England. The result was disastrous. The *Rigmor* was sunk by German aircraft, six ships scuttled them-

¹ E.B., i, 621. The Swedish-German transit agreement of July 1940 provided for the transit of goods from Denmark-Germany to Norway and vice versa; laid down that for war material transit was subject to licensing according to Swedish law; and provided that members of the German forces on leave should be allowed to pass through Sweden in uniform but without military equipment. *Documents on German Foreign Policy, 1918-1945*, Ser. D., vol. x, nos. 14, 15, 60, 64, 110, 131-3. Hägglöf, *op. cit.*, pp. 220-1.

² See p. 181 above.

³ Raeder reported to Hitler (26th August 1941) that Sweden had guaranteed that none of the Norwegian ships would escape to England in the immediate future, but had advised Germany to arrange with the Norwegian Shipping Union for the ships to be handed over to Germany. *Fuehrer Conferences, 1941*, vol. ii.

selves, and only the *B. P. Newton* and the *Lind* reached England. Of the remainder the *Solgry* never left port, and the *Lionel* and *Dicto* returned to Gothenburg after being attacked. There they remained, incurring heavy expense and bank guarantees. The Swedish Government discovered that an attempt had been made to arm the ships before their departure and accordingly, under German pressure, it called on the British legation to withdraw the two British officials, on the ground that they had borne a share of responsibility for the arming.¹ At this point it was not known what further demands the Germans had made, but it soon became clear that the Swedish Government had decided that, in the present state of the war, it could not take the risk of allowing the two ships to attempt another flight.

In the British legation in Stockholm the five demands that Hambro had put forward as a 'hard bargain' were considered 'to be rather soft'. The United States authorities perhaps took the same view. In reply² the Swedish Government said that it would not insist on the departure of the two British officials, although it did not see what this had to do with the other matters under discussion. No export of arsenic was contemplated for the duration of the war. The transit of war material from Germany to Norway and Finland would not exceed 2,500 tons a month to each country. Sweden's definition of war material did not include petroleum, and neither international law, Swedish neutrality rules, nor Swedish law could be invoked in support of a prohibition of the transit of petroleum products. The leave traffic was not considered to be in any way alarming; it had been kept within the terms of the 1940 agreement, and corresponded to only a few weeks' leave for each German soldier in Norway. There was no leave traffic through Sweden between Finland and Germany. An ambiguous statement about the furnishing of statistics of the transit traffic was taken to mean that in fact the British minister would be given the necessary figures from time to time. This was by no means a complete acceptance of the British programme, and on the same day (1st July) the State Department sent to London its own terms for an oil deal. It proposed that the oil quota should be raised by 10,000 tons a quarter for military purposes only, and that in return the Swedish Government should agree to the five British conditions and also to the following additional ones:

6. An undertaking by the Swedish Government not to increase the present clearing balance in favour of Germany as regards trade with Germany.
7. A sharp reduction or cessation of food exports to Finland.

¹ Other British officials had already been withdrawn, and the Foreign Office considered that with their departure 'the guilty persons have been removed'.

² In the form of an *aide-mémoire* given to Mr. Mallet by M. Boheman on 1st July.

8. Provision of prompt and detailed statistics of Swedish exports including textiles and foodstuffs.

If it proved impossible to obtain all these concessions in return for a quota of 25,000 tons of oil a quarter the United States Government would be prepared to consider a further increase. But the Ministry at once objected that it was impossible to ask the Swedes for more and at the same time to offer less than in the proposals of 11th June. Moreover, Sweden had already undertaken not to re-export any shipments imported through the controls, whether foodstuffs or otherwise; the prohibition of the export of all commodities on List A included all the principal foodstuffs that Sweden might export except fish and potatoes.

By the end of July the State Department had agreed to increase the oil quota to 30,000 tons, but it still wished to secure, in addition to the five British concessions, a Swedish undertaking that no further credits or financial facilities should be made available to the Germans. Then the United States embassy in London caused a further delay; it told the Ministry on 4th August that nothing was to be said to the Swedes about American consent or American conditions until the Swedes had supplied certain oil statistics. The Ministry asked for these the same afternoon, but the Swedish legation did not seem in any hurry to provide them. To add to the confusion the United States legation in Stockholm had been told nothing of the conditions of 4th August, and found it hard to credit the British account of them, particularly as the Swedish minister in Washington telegraphed that neither the State nor any other department would admit that there was any American impediment to the oil export. Mr. Mallet told M. Boheman, the Swedish Secretary-General, 'confidentially and unofficially' on 11th August of the American demand about credits, and M. Boheman replied at once, 'if you insist on these conditions we abandon the hope of oil'. He said that the Swedish Government would naturally do its best in its own interest to refuse credits to Germany, but it could never bind itself to such a condition especially as, if the war went badly, it might have to play for time. It seemed useless, he added, to go on bargaining: apparently at every turn some new condition was to be imposed by the British or the United States Governments.

The Ministry was able to give a fairly effective reply to this complaint; it had pointed out in June that as the Americans would have to supply the oil they might, and indeed probably would, attach new conditions, and in any case, as the Swedes had not fully accepted the British conditions of 11th June, the whole question was still open. Nevertheless it saw no reason to question Mr. Mallet's belief that the Allies had reached almost the limit of bargaining and were unlikely

to get much more out of the Swedish Government at this stage of the war. Things moved forward at the end of August when the State Department decided that it would not insist on the credit undertaking or the supplying of statistics prior to the conclusion of the agreement. General Eisenhower, who was asked his opinion on 27th August, agreed on 3rd September (while disclaiming any independent information) that it would be advantageous to keep the Swedish armed forces sufficiently strong to enable them to act as a deterrent to Germany, and on 14th September the Ministry was able to present to the Swedish legation a revised version of its conditions for the oil quota. They were as follows:

1. The Swedish government was asked to agree that all German transit traffic through Sweden, including war material, should be limited to 100,000 tons per annum for Norway, 40,000 tons for Finland via Norway, and 60,000 tons for Finland direct.
2. Sweden was to agree to a ceiling of 225,000 double journeys a year for the passage of German troops on leave, and to restrict traffic to men genuinely going on, and returning from, leave.
3. The increased oil quota was to be used solely for military purposes, guarded against seizure, and promptly destroyed if circumstances rendered this necessary.
4. Sweden was to cease the convoy of German ships carrying troops and war material.¹
5. Sweden was to give an assurance that the terms of the Anglo-Swedish war-trade agreement would be strictly observed particularly as regards 'normal trade' with belligerents and the provision of commercial statistics.

But this programme, and particularly the fourth point, still caused difficulties.

There seems no doubt that this haggling over special points and the exact significance of concessions was leading the British, and still more the American, Government to mistake the real intentions of the Swedes at this stage of the war. While the Swedish Government was convinced that wartime trade with Germany must be continued on broadly the existing basis it was showing no inclination to help Germany in her increasing economic difficulties, and indeed its tendency was to stiffen its attitude towards her sufficiently to make possible a satisfactory adjustment of relations with Britain and the United States, perhaps for the duration of the war. This can be seen

¹ Three German vessels with troops and war material were known to have passed through the Falsterbo Canal at the end of August, and had later proceeded in the normal daily Swedish convoy northwards along the Swedish east coast. Early in September the Swedish Government prohibited the future passage of German troops through the Canal.

in the parallel negotiations which were carried on during the last months of the year by M. Hägglöf with the Germans and by M. Boheman with the Allies. While the former was allowed by his government to seek to end all export credits to Germany, the latter was visiting London and Washington in pursuit of a permanent basis of agreement (i.e. a new war-trade agreement). M. Boheman was a cautious and somewhat pessimistic diplomat, and it would seem that his resistance to some of the Anglo-American proposals, as for example over the ending of credits, may have suggested a more uncompromising attitude than was intended. In fact, however, although M. Boheman had refused in August to bind himself on the question of credits, M. Hägglöf was trying a few weeks later to secure very much what the Americans had demanded. He later described these negotiations as the stiffest of his trade negotiations with Germany throughout the war. The general course of these Swedish-German negotiations was known to the Ministry, which at least can be said to have attached more importance to them than did the Americans.

The negotiations were a continuance of those that had taken place in previous years—their purpose being to regulate the economic exchanges between Sweden and Germany for the coming year. Germany, as we have seen, had not been particularly pleased with the previous agreement of 19th December 1941. The position now was that between January 1941 and August 1942 German exports to Sweden had exceeded Swedish exports to Germany by some 400 million kronor; owing however to Swedish invisible exports Germany had a debit balance of $67\frac{1}{2}$ million kronor for which Sweden had hitherto given credits. Germany now pressed for further credits, but Sweden declined to do more than continue the existing export credit guarantee system, and she even announced that exports of timber, paper, and pulp would have to be less than in 1942. In the course of very tense negotiations the Germans offered to supply 2,000 tons of buna. Nothing being settled in November, the meetings were postponed until 7th December, and eventually a temporary arrangement was concluded on 19th December, although, owing to Sweden's unwillingness to meet German proposals about prices, the final agreement covered only the first half of 1943. No credits were allowed by the Swedes, and Germany cannot be said to have gained any overall advantage on the transaction. Sweden maintained her existing level of iron ore exports; changes in the price of German coal were met by a corresponding adjustment in the price of Swedish iron ore. Swedish exports to Germany were to be reduced to correspond to Germany's inability to increase exports to Sweden above the existing level. This arrangement referred mainly to the difficulty of shipping iron ore. The rate of delivery of German coal was to be five million tons a year. Germany also agreed to deliver 3,000 tons of buna during

1943 'in order to allow Swedish imports of Rumanian oil at 2,000 tons monthly'. Sweden, in her turn, granted certain confidential concessions to Germany. Britain was promised in the near future further information about these. (The Ministry believed that the concessions concerned the manufacture of motor lorry tyres.)¹

In the meantime M. Boheman came himself to London at the end of September to try to conclude the oil negotiations and to meet American officials in order to find a basis of general agreement. For this purpose the right course would clearly be a revision of the Anglo-Swedish war-trade agreement, of which he had been one of the architects in 1939. Long discussions of the five points during October produced some progress; he accepted the figures in the first two points as more or less corresponding to the probable German use of the railways for the next twelve months, and gave the requisite assurances under point 3. But he had to state his government's opinion that the action of the Swedish Navy in escorting merchant vessels, Swedish and foreign, along certain parts of the Swedish coast was necessitated by the fact that foreign submarines during the summer had repeatedly attacked and sunk Swedish merchant vessels in Swedish waters. The last of the five points had evidently caused the Swedish Government some embarrassment, and on 5th October M. Boheman replied with a frankness which by its 'honesty and truth' made a not unfavourable impression on Lord Selborne and the senior officials of the Ministry. In effect, M. Boheman pleaded *force majeure*; it had been impossible for both parties to keep strictly the engagements entered into in December 1939, and Sweden had at any rate kept her promise not to export to Britain's enemies anything imported through the controls. Where she had exceeded normal trade figures for her exports of indigenous products it was in order to obtain vital necessities that she could not obtain from elsewhere, because the British had been unable to guarantee the continuance of Sweden's normal imports from overseas. The Ministry was accordingly prepared to accept tacitly the Swedish refusal on this point and to agree to the increased oil quota providing that satisfaction was given on 'the really important questions', transit of troops and war materials.² M. Boheman set out the limits to which the Swedish Government was prepared to go at this stage of the war in a memorandum of 14th October. But now came further delay. The intensity of the departmental struggle in Washington over Swedish supplies made it impossible to separate the oil negotiations any longer from the general discussions; B.E.W. feared that an agreement on

¹ M. Hägglöf's account (*op. cit.*, chap. xiii) shows how stubborn the bargaining was on both sides.

² This recommendation was contained in a departmental minute dated 7th October 1942, and accepted by Lord Drogheda and Lord Selborne.

oil at this moment would result in an explosion on the part of the opposition party, whose prior agreement had not been specifically sought, and who would say that the most potent supply weapon had been traded away. The Ministry said that Lord Selborne would 'greatly deplore' a refusal to grant an increased oil quota before the completion of the more comprehensive deal. The final result was, nevertheless, that the oil negotiations had to be transferred to Washington. In England M. Boheman saw Mr. Churchill, who advised him to go to Washington and take up the pending questions personally with Mr. Roosevelt. Mr. Churchill also telegraphed to this effect to the President, who promised to receive the Swedish negotiator. After receiving the Swedish Government's permission, M. Boheman followed the oil negotiations to Washington at the end of October.¹

When all due allowance is made for the delays in Washington, and the unwillingness of the Swedish Government to go beyond a certain point in annoying the Germans at this stage of the war, it must be said that progress was also impeded by some lack of clarity in the British attitude. Was it better to look on the oil as a method of building up Swedish morale and goodwill, preventing an oil deal between Sweden and Germany, and laying a claim for later Swedish reciprocity? Or to seek to secure the maximum advantages before any of the increased oil quota was delivered? The choice was between immediate and delayed advantages. When the Swedes showed reluctance to grant all the British and American demands there was some retreat, and the question was continually asked: is it really to our advantage to withhold the oil? The State Department had been prepared in July to regard the oil deal as an isolated transaction, but its request for statistics held things up during August, perhaps through a misunderstanding which the Ministry might have removed by prompt inquiry. The matter was however only partly one of economic warfare; the advantages which the British Government was drawing, and hoped to draw, from its wartime contacts with Sweden included supplies and information which were the interest of other departments. Indeed, the more specific blockade demands had been met (in the case of arsenic and statistics) or dropped for the time being (as in the case of the American objection to credits and the British demand for assurances about normal trade). The Foreign Office took a direct interest in the oil negotiations throughout, and was anxious to secure the passage to England of the *Lionel* and *Dicto*, with their valuable cargoes. It was recognized in August that there was little likelihood of Swedish cooperation in this matter at the moment but it was hoped that if the oil agreement went through, and if there were an improvement in Allied fortunes, it might be possible to get the ships away before the end of the year, after which weather

¹ Hägglöf, *op. cit.*, p. 224.

conditions would be less favourable. Over this issue there was again some doubt as to whether it would be better to increase goodwill by hurrying the completion of the oil deal, or to hold back agreement until the Swedish Government had agreed to facilitate the departure of the ships. As a result, M. Boheman went to Washington without being aware that this was to be the British Government's main condition for an agreement.¹

It must be added that three other developments at this time had strained the Ministry's patience in its relations with Sweden. The first concerned the oil quotas. In the agreement of December 1941 it had been clearly laid down that the Swedes would take their four quarterly quotas for 1942 during the first three quarters of the year; but having done this they were then understood to have approached the United States authorities in Washington and stated that the Ministry had agreed to their taking an extra quarter's quota of oil. This was believed to be a 'particularly disingenuous' action; but, as the service authorities desired that Sweden should have additional supplies of oil for defence needs, Lord Selborne decided not to ask the Americans to withdraw their consent, as they were ready to do. Secondly, it was learned that Sweden had for some time past been exporting horses in some thousands to the enemy. The war-trade agreement limited the export of horses to normal trade, which meant about 330 a year. Thirdly, there had been reports in the Swedish press, which the Ministry of Foreign Affairs confirmed substantially in July, that German military lorries and other vehicles from Finland and Norway were being repaired in Sweden.

We must now glance at the situation in Washington, where powerful elements in the Administration were still opposed to any supplying of the European neutrals. There was, as one British official of the embassy wrote in a private letter to the Ministry in July, a

¹ See pp. 192-3 above. In July the Ministry of Supply's representative in Stockholm had said that it would be throwing away good money to purchase further quantities of high-priced Swedish steel and machines for export to the United Kingdom unless there was a definite assurance that the Swedish Government would not prevent the departure of the two ships. The British naval attaché accordingly approached the Chief of the Swedish Naval Staff on 21st July; on 4th August the latter said that the Swedish naval authorities had orders to prevent the ships from sailing. The counsellor to the British legation asked the Secretary-General on 6th August for a clearer statement of the position, as it was desired to complete preparations in order that the two ships might leave in the autumn. M. Boheman said that in his view there was no question whatever of the ships being allowed to leave either in the autumn or later unless the military situation underwent a complete change. The Foreign Office regretted that the question had been raised at this point, in view of the position on the Eastern Front, and instructed Mr. Mallet on 11th August merely to tell M. Boheman privately that his statement if officially confirmed would make the most deplorable impression and clearly affect the British attitude in the general question of exports to Sweden which was being discussed with the United States authorities. On the same day a telegram was sent to Washington saying that it might prove desirable to withhold supplies to Sweden if the Swedish attitude on the ships were maintained; but to make such a threat effective it was necessary to have reached agreement with the American authorities in principle as to permitting exports.

strong school of thought . . . which supports not an ounce of anything for the European neutrals, and in order to overcome this it is necessary to be as definite as possible, and to keep them from going into generalities, but I am afraid that when it comes to a question of allocation of scarce materials for Sweden, we are going to meet some very strong opposition.

The spearhead of this attack was the 'tough young men' of B.E.W., who found some supporters in the State Department and powerful allies in the United States service departments.¹ In June the State Department asserted itself to the extent of securing acceptance of the principle of war trade as it had been established between Sweden and Great Britain, and discussions continued as to the basis of a new war-trade agreement which would bring the situation up to date, by revising the existing conditions of Swedish trade and bringing the United States into the negotiations. A complete list of basic rations for Sweden, as they had been agreed between the various departments in London, was sent to Washington in August for submission to the Combined Raw Materials Board. But a sub-committee of the Board of Economic Warfare, which had been appointed to draw up a programme for the revision of the war-trade agreement, was not able to reach any agreement until the end of October; it was understood by the British embassy that the main difficulty still arose from the uncompromising opposition of the United States army authorities to a 'liberal' policy.

The negotiations were complicated by the problem of Swedish export trade to South America. It was to be expected that the German authorities would seek to cut off Swedish trade with the United States and those Latin-American countries that had not declared their neutrality, and would prohibit the export of practically all Swedish goods except perhaps paper and pulp. Early in January 1942 it became known in London that the Germans were still prepared in principle to allow Swedish exports of miscellaneous goods to neutral South American ports, provided that the goods were not of a kind likely to be of use for war purposes, directly or indirectly, and subject to guarantees of non-re-export in each case. No Swedish goods at all could, however, be sent to the United States or other non-neutral places in the Americas, although imports into Sweden were still allowed regardless of the status of the country of origin. Early in February 1942 it was understood that Germany would continue, in spite of the Rio conference, to allow the passage of Swedish ships through the blockade to all countries in South

¹ Mr. McCloy, Assistant Secretary for War, told M. Boheman that he had three reasons for desiring to sever Sweden's connexion with the West: Sweden worked for and exported mainly to Germany; imports from the West strengthened Sweden's ability so to help Germany; Swedish public opinion made a Swedish adherence to the Axis unlikely, even if the Gothenburg traffic were stopped. Hägglöf, *op. cit.*, pp. 224-5.

America, except Colombia and Venezuela. Then in March the Germans limited the export of Swedish wood pulp to Argentina and Chile. At the beginning of May the Uruguayan Government ordered the suspension of supplies of fuel oil to Swedish steamers entering Montevideo as a reprisal for the Swedish suspension, at Germany's behest, of the export of considerable quantities of newsprint.¹ But this counter-pressure proved to be ineffectual, for there was no means to persuade Swedish masters to risk the sinking of their ships by German submarines as a penalty for non-compliance with German demands.

The matter nevertheless rankled, and was raised by Mr. Acheson in conversation with Mr. Noel Hall in Washington on 25th July, when it appeared that the United States Government had it in mind to prevent, if necessary by force, the action of Swedish vessels in calling at Argentine ports so long as they refused to call at other South American ports. This move was apparently due less to the State Department, which understood the Swedish Government's difficulties, than to other elements in the United States Government which regarded it as intolerable that Germany should be able to give instructions to neutral vessels about their conduct in Western-Hemisphere waters. The Brazilian Minister for Foreign Affairs also suggested at this time to the British minister, Sir Noel Charles, that ship navicerts should be refused to Swedish ships which were unable to bring cargo to Brazil in view of the Swedish undertaking that their ships outward bound for Argentina should carry only goods for that country. This move had been suggested by the United States ambassador, who was anxious to force the Swedish authorities to surrender 285 tons of rubber which S.K.F. had purchased on the eve of the conclusion of the U.S.-Brazilian rubber agreement.

The Ministry could not see that any blame attached to the Swedes, and it seemed quite the wrong moment, when Allied shipping losses were so high, to indispose Sweden over shipping questions. Under the agreement of May 1940, 60 per cent. of Sweden's available tonnage outside the Baltic had been chartered to the British Government for service in the war zones; the Allied cause had benefited to the extent of over half a million tons, of which little more than half had survived. Of the remaining 40 per cent. of Swedish ships outside the Baltic (about 350,000 tons), two tankers of about 20,000 tons were permanently on charter to American firms, while some 80,000 tons of cargo ships were permanently engaged in trades of value to the war effort outside European waters. Some 160,000 tons had been requisitioned by the Swedish Government for the transport of imports into Sweden, and of the 85,000 tons that remained at the free disposal of the owners the greater part was normally employed in

¹ *South American Journal*, 2nd May 1942, p. 242.

trade of direct or indirect value to the Allied war effort. Negotiations were on foot to extend Allied control over the remaining fraction. The Ministry, after agreement with the Foreign Office, telegraphed on 28th July to Washington strongly opposing the suggested prohibition.

This problem was to cause the State Department much concern for the next twelve months. The Ministry's telegram of 28th July formed the basis for further discussions, and at a meeting at the State Department on 10th August attended by the United States ambassadors to Argentina (Mr. Caffery) and Brazil (Mr. Armour), the British representatives were told that serious difficulties were developing in maintaining the cooperation of South American states in anti-Axis measures owing to the fact that non-cooperating states, particularly Argentina, were securing substantial trade advantages at the expense of the collaborating republics. Swedish compliance with German orders not to export to Brazil and Uruguay made still more difficulty. In 1941 and 1942 Argentina's exports to Sweden were 19,000,000 pesos and her imports from Sweden 10,000,000 pesos annually. In the first six months of 1942 exports to Sweden rose to 26,000,000 pesos whilst Argentine imports jumped to 31,000,000 pesos. After considering various possible courses, the Americans proposed that a tactful approach should be made to Sweden along the following lines:

1. Sweden to export to other Latin-American states besides Argentina and Chile, and to place no obstacles in the way of legitimate exports to the United Kingdom.
2. Sweden to disgorge stocks of scarce materials in Latin-America, including the 285 tons of rubber in Rio de Janeiro.
3. Sweden to make no more purchases of these scarce materials in Latin-America except in collaboration with the Allies.
4. In exchange, the United States and British Governments would agree to do everything possible compatible with the war effort of both countries to make available limited amounts of scarce materials required by Sweden.

The British representatives found it 'an extremely difficult meeting'. Mr. Noel Hall suggested that the main issue of policy—how much the United Nations were prepared to pay in scarce materials for the advantages, material and otherwise, that they hoped to obtain from Sweden—had never been faced in Washington, and Mr. Acheson agreed that they would not get very far if, as seemed to have been the case in recent weeks, certain branches of the United States Government were unwilling to give anything at all to the Swedes. In the end, however, Mr. Finletter was able to say that he felt that the C.R.M.B. would now be willing, in return for reasonable advantages, to make a range of scarce materials available to Sweden in amounts

that would make it worth while for the Swedes to bargain, and it was on this basis that the four above points were agreed. The proposals meant in effect that the United States Government had for the time being abandoned the idea of forceful persuasion, and was offering Sweden supplies of vital materials in return for an agreement to trade in accordance with United States 'hemisphere policy'.

Thus the lines of a possible bargain with Sweden were foreshadowed in Washington, although the Ministry was still uneasy lest the Americans should be unrealistic in their demands. In particular it disliked the attempt to use the blockade machinery to bring pressure on Argentina. As the United States had issued no reprisals orders it had no right under international law to interfere even with German non-contraband exports, let alone those of a neutral. The Allies' only possible means of controlling Swedish export trade, apart from the actual interception of Swedish shipping by the United States Navy, might have been through an arrangement under the Carlsson-Mounsey agreement of November 1939.¹ This possibility had been suggested to the Americans by a successful arrangement made recently by the Ministry with the Swedish War Risks Insurance Office, which had no liking for Nazi propaganda, and were therefore quite willing to limit Swedish exports of wood pulp to approved consignees in Argentina by withholding insurance from firms on the Statutory List and others cloaking for them. But the Ministry had no right under the Carlsson-Mounsey agreement to insist on this action, and the Swedish insurance pool no reason to interfere with Swedish exports of iron and steel. Moreover, the British Government was too dependent on Argentine supplies to wish for any trouble that might lead to their interruption.

The proposed bargain over Swedish-Argentine trade formed an important part of the comprehensive discussions which were being conducted by the sub-committee of the Board of Economic Warfare, to which reference has already been made. The opposition of the U.S. service departments to the sending of supplies to Sweden appears to have been dropped in its more extreme forms by the end of October, but there was still a danger that it would influence the United States authorities to demand more from Sweden than the limited bargaining strength of the Allies warranted at this point of the war.² All the current Anglo-American demands were embodied in 12 recommendations which the Board finally adopted by resolution on 12th November 1942. These were to form the basis of

¹ E.B., i, 150, 629.

² Mr. Stanton Griffis (*Lying in State*, New York, 1952), sent to Stockholm in September to report on Sweden's attitude for the information of the O.S.S., sent a 'somewhat violent report' on iron ore and ball-bearings exports which 'guided the O.S.S. and Office of Economic Warfare' (pp. 104-5).

negotiations with Sweden for a revised war-trade agreement, and may be summarized as follows:

- (a) A strict enforcement of the War-Trade Agreement and modifications thereof to put an end to the existing violations and exceptions. Modifications should include the reduction of certain blockade quotas for Swedish overseas imports which are excessive, and elimination where practicable of commodities imported from overseas which enter into Swedish production for the enemy.
- (b) An increase in the flow of strategic materials from Sweden to the United Nations, and cooperation by the Swedes in the matter of substantial purchases by the United Nations for preclusive purposes as well as for supply.
- (c) Assistance by the Swedes in effecting transport by sea and air for materials from Sweden to the United Nations.
- (d) Satisfactory arrangements for the use by the United Nations not only of Swedish shipping at present outside the Baltic but also for the vessels built or being built by Sweden.
- (e) Elimination or substantial reduction of Swedish Government credits, direct or indirect, to enemy countries.
- (f) Access to full information on Swedish exports to and imports from enemy territory.
- (g) The conclusion of negotiations satisfactory to the Department of State, whereby the Swedish Government shall agree to equalize its export trade with the other American republics in such manner that, if Sweden limits its export trade to any American republic or republics, Swedish exports to other American republics to which exports are not so limited shall be correspondingly reduced.
- (h) The conclusion of negotiations satisfactory to the War Shipping Administration, for the chartering of 21 Swedish vessels now in this hemisphere.
- (i) A substantial reduction, the maximum attainable, in the number of enemy troops on leave now permitted to pass through Swedish territory, and a stipulation that no troops be permitted to travel through Sweden to Finland.
- (j) A substantial reduction, the maximum attainable, in the military traffic of materials now permitted to pass through Swedish territory, and a stipulation that no military traffic or materials be permitted through Sweden to Finland.
- (k) A substantial reduction, the maximum attainable, or elimination of German military traffic in Swedish territorial waters and of the use of Swedish convoys by the enemy.
- (l) A reduction in the iron ore exports from Sweden to enemy territory from the current figure of about nine and a half million tons annually to normal pre-war exports to Germany.

The two general arguments on which the Americans proposed to

base the Allied case were that the concessions granted in the past by Sweden to the enemy were incompatible with even the existing facilities granted to Sweden for the importation of supplies from overseas, and that Sweden's expressions of sympathy for the Allied cause and her obvious desire to see the war ended quickly should be implemented by tangible evidence in the form of reduced aid for Germany, even at the cost of some sacrifices on Sweden's part. In return for Swedish cooperation the Allies would not only provide a new oil quota for Sweden's armed forces but try to make available to Sweden 'certain quantities of important commodities including many in short supply'.

The twelve American demands were formulated just at the moment when the fortunes of war were beginning to turn in favour of the Allies, and after some modification to meet British points of view they formed the basis of the successful negotiations for a new war-trade agreement in 1943. We shall trace in a later chapter how Sweden was brought to agree to these and other important changes to the benefit of the Allies in 1943 and 1944.¹

¹ See chap. XV below.

CHAPTER VII

SWITZERLAND

(i)

The Swiss-German Trade Agreement

FOR Switzerland, as for Sweden, the German attack on Russia meant some lifting of the threat of German invasion. But she was more dependent than Sweden on German imports, and less able to threaten effective retaliation to attack; and it was physically impossible for her to export without the permission of her Axis neighbours. After the fall of France the British Government's only reason for not treating her as enemy-controlled territory and applying to her the full rigour of the blockade had been the belief that certain advantages outside the field of economic warfare would be lost in a formal rupture of relations. These advantages included the use of Switzerland as an intelligence centre, the prospective protection by Switzerland of British interests in enemy-occupied territories, and the willingness of the Swiss people and army to resist German threats and in particular to destroy communications in the event of attack. There were furthermore certain specialized exports from Switzerland which were to remain desirable to the British authorities, and later to the Allies, throughout the war.

But there had been little that Great Britain could do to strengthen Swiss resistance to German pressure in the mood of pessimism and bewilderment which followed the French collapse. The earlier military plans, based on holding the northern and eastern frontiers until the arrival of French assistance, had become useless; it was the belief of the Swiss General Staff that if French resistance had been continued for a few more hours in June 1940, 26 German divisions on the Swiss frontier would have been thrown into a massive German thrust through the Jura to turn the Maginot Line. Psychologically the collapse had shattered the traditional Swiss outlook on Europe, and this was particularly evident in the French-speaking districts which were believed to have been pro-French rather than pro-Ally in the first World War. The German-speaking element, stronger and more influential than the French, disliked the present German Government as much as it had sympathized with its predecessor in the earlier war, and the first signs of hope that the British cause was

not lost had appeared in these German-speaking districts at the time of the R.A.F. victories in September 1940. With the reviving belief in the possibility of a long period of neutrality in a protracted war the Swiss Government had accordingly sought to strengthen its one genuine bargaining counter, the control of the Gotthard and Simplon tunnels, which had become the life-line of the German-Italian war effort. New military plans were drawn up which provided for the withdrawal of the army into the central massif or *réduit national* in the event of invasion; the army was maintained on a war footing, defence works undertaken systematically and at heavy cost, and the Germans left under no doubt that the destruction of the tunnels would be certain in the event of a German invasion. The British Government's policy since August 1940 had been to allow carefully regulated imports through the blockade as long as the Swiss Government seemed able and willing to strive for some degree of independence of Axis control. Accordingly, the Ministry's proposal of 26th August 1940 to extend the blockade to Switzerland had not been accepted.¹ The Anglo-French-Swiss war-trade agreement of 25th April 1940 had remained in force, although the French had withdrawn and the other two governments had recognized that many of its provisions were inapplicable.²

At the time of the signing of the war-trade agreement, Switzerland had been free to export to the enemy, to the French, to Great Britain, and to other neutrals, and the Allies had hoped to benefit from her exports to a greater extent than their enemies. No quantitative restriction had been placed on Swiss imports, but instead the Swiss had undertaken to issue 'certificates of guarantee' for all goods imported through the blockade. These guarantees provided that the goods would not be exported '*en état*'—i.e. in the same condition as that in which they were imported. This did not, however, prevent their being used in the manufacture of articles for export, although limits were fixed on exports to the enemy of certain classes of manufactured goods. A Mixed Commission of British, French, and Swiss representatives had also been provided for; its object was to control the importation and consumption of goods for which guarantee certificates had been issued, and to deal generally with any difficulties that might arise in the operation of the agreement.³ The main benefits of the agreement were lost with the fall of France, for Great Britain and her remaining allies could no longer import freely from Switzerland, and for a time all cargoes on their way to Switzerland had been stopped. Towards the end of the summer of 1940 however the British authorities began to allow into Genoa the goods which had been held up en route, a safe conduct for their transit having been

¹ E.B., i, 585-90.

² *Ibid.*, i, 237, 586.

³ *Ibid.*, i, 229-37.

obtained by the Swiss Government from the Italians (who showed as much sympathy as they dared). In the autumn Professor Keller had been sent to London by the Swiss Government to make fresh arrangements for Swiss imports, and after lengthy discussions it was decided to grant import facilities for reasonable Swiss requirements of almost all commodities as and when stocks in Switzerland could be brought down by a process of consumption to the equivalent of two months' supply. There then followed further discussions, which continued into the summer of 1941, in which import rations were fixed for a long list of commodities. Professor Keller was left in no doubt that the British attitude towards Swiss imports through the blockade would in general depend on the degree of independence which Switzerland was able to maintain. The volume and nature of her exports to Allied and neutral destinations would be the main barometer of her independence.

But as long as Switzerland faced the prospect of imminent submergence under the tidal wave of Nazi conquest, with insular isolation in an Axis sea as the sole unattractive alternative, its response to the Ministry's pressure was limited and timid. It was inevitable that Switzerland, like Sweden, should seek to reduce the danger of invasion by giving the Germans at least as much as they would have gained by seizing the country. In any case Switzerland needed coal and other raw materials from Germany. During the first half of 1941 Swiss industry was turning over its capacity more and more to the manufacture of material or goods useful to the enemies of Great Britain, while Swiss banks were playing an increasing part in facilitating enemy financial transactions. The British legation in Berne, with an alert staff under an able minister, Mr. David Victor Kelly, watched these developments uneasily, and the efforts of the Swiss Government to conceal the assistance that was being received from Great Britain in the form of imports were anything but reassuring.¹ An address by Mr. Kelly on 26th April 1941 to the British Chamber of Commerce was forbidden publication in the press by the military censorship. A few days later, in reply to a strong note of protest, M. Pilet-Golaz, the Federal Councillor in charge of foreign affairs, said frankly that (1) the publication of information about importations from overseas without particulars regarding reserve stocks would make the Swiss more difficult than ever about rationing regulations; (2) it was essential to keep the real amount of the reserve stocks completely secret from the Germans and Italians who did not know the proportion of imports passed to the reserves; (3) publicity regarding importations through the blockade would pro-

¹ Sir David Kelly, *The Ruling Few, or The Human Background to Diplomacy* (London, 1952), sketches the general situation in Switzerland during his term as minister at Berne, 1940-2 (pp. 265-86), with a few specific references to the blockade discussions (pp. 276-7).

voke counter propaganda. This claim to impartiality seemed even less convincing when it became known shortly afterwards that the Swiss economic machine had been placed largely at the disposal of the Axis powers. As a preliminary there was an announcement that under German pressure the Swiss authorities had been compelled to prohibit the unrestricted exports of goods in two-kilogramme packets, thus reducing even further the flow of exports to the outside world. There followed during June and July news of a series of new economic agreements with Germany, Italy, and the satellite states.

The unfavourable impression created in London by the main economic agreement with Germany was strengthened by a number of other arrangements which immediately preceded it. Thus agreement was reached in *pourparlers* at Berne between 6th and 14th July 1941 over exchange problems between Switzerland and Slovakia, and this was accompanied by a regular commercial treaty with a mutual agreement to increase trade as much as possible. Arrangements were also announced in the Swiss press on 11th July to improve the transport of goods from Rumania, Bulgaria, and other countries in the Near and Middle East through Germany to Switzerland. The main discussions were concluded after more than eight months' negotiations by the signature of the German-Swiss trade agreement on 18th July, and its ratification by the Federal Council on 24th July 1941. It was to last until the end of 1942, and although the Swiss refused to show the British the actual agreement¹ and forbade all discussions in the press, a 'full and frank' report was given to the British representatives at a meeting of the Mixed Commission on 22nd July. Dr. Hotz claimed that in a long and hard struggle with the Germans the Swiss delegates had done their best: the essential thing was that Switzerland should receive the raw materials necessary to maintain her industry and therefore her independence. Swiss economy, he insisted, depended uniquely on Germany, both for imports and for the export trade.

As far as imports were concerned the chief points of the agreement concerned German deliveries of coal, iron, and mineral oils. Germany had agreed to deliver to Switzerland 200,000 tons of coal a month until the end of 1942. The amount before the agreement had been 150,000 tons a month, but as the Swiss coal stocks were now exhausted the new figure would represent the sum total of available supplies and would depend in any case upon the availability of transport. Iron ore had caused much difficulty but it had finally been agreed that Germany should deliver 13,500 tons of iron and steel a month and should impose no conditions as to its use. It did

¹ On the ground that the text of the Anglo-Swiss war-trade agreement had not been communicated to other diplomatic missions.

not, therefore, include 5–6,000 tons of iron and non-ferrous metals which Germany was supplying for the manufacture of goods which she ordered in Switzerland for her own use. Copper and other metals for such manufacture would also be supplied. It was estimated that the total import of iron ore from Germany would be about 20,000 tons a month. Germany had also agreed to supply each month 14,500 tons of petroleum products including petrol (4,650 tons), fuel oil (1,000 tons for industrial use only), diesel engine oil (1,500 tons), and lubricating oil (1,200 tons); she promised to deliver these oils principally from Rumania but to supply from her own stocks if Rumanian supplies were not forthcoming. Payments were to be made through the Swiss-Rumanian clearing. The technical organizations were responsible for the arrangements and Switzerland had to send her own tank-wagons to fetch the oil, as she had done in the past. Germany also agreed to deliver:

Sugar	10,700 quintals (up to the end of 1941)
Alcohol	5,000 hectolitres
Seeds	4,000 tons (the usual quantity)
Potato seeds	200,000 quintals
Oats	20,000 „
Barley	20,000 „
Fertilizers—mostly potash	250,000 „

She was also considering certain other Swiss requests.

In return for these imports Switzerland agreed to continue exports of certain agricultural produce and manufactured goods to Germany and to grant Germany advances on the clearing account. The British were told that there had been a reduction in recent exports of dairy products. During the second half of 1940 (i.e. from 1st August to the end of the year) 60 million francs' worth of agricultural produce had been exported to Germany but during the same period of 1941 it was estimated that only 50–52 million would be exported. The Swiss also pointed out that these values covered market prices which had risen since the previous year. 500,000 kgs. of milk had been exported during July but there would be no further exports. Germany, who had always taken Switzerland's excess of apples and pears, was to receive up to the value of 20 million francs for the second half of 1941 as well as 10–12,000 head of cattle, i.e. about 0·3 per cent. of Germany's consumption. No arrangements had been made for 1942. It had also been agreed that up to the end of 1941 exports were to include 2,300 tons of cheese (in value 9½ million francs) and approximately 3,000 tons, or about 8 million francs' worth, of condensed milk. The Swiss advances on the clearing account between the two countries were not to exceed 450 million francs at the end of 1941 (the amount on 1st June being about 120 million), 650 million francs at 30th June 1942, and 850 million francs at 31st December 1942. The last sum was 'the maximum total amount of

these advances'. In justification of these financial arrangements the Swiss minister in London claimed in a letter to the Foreign Office on 12th August, 1941,

Such advances are however subject to Germany supplying the raw materials required for goods to be manufactured in Switzerland, to the export capacity of the country and to the import of goods produced in Germany. Moreover, the advances are not in the nature of a credit opened to Germany, but will be constituted by advance payments made to Swiss exporters, who as well as the Swiss labour will thus benefit by the Agreement. The repayment of the then outstanding amounts by deliveries of coal and iron by Germany after 31st December, 1942, have [*sic*] already been foreseen.¹

The other aspect of the agreement which affected the British war-time economy was the limitation of Swiss exports. As a supply problem this did not directly concern the Ministry, but it was involved from the start in the considerations of general policy on which the Ministry had to base its conduct of the blockade. The Germans had set up on 1st September 1940 a 'counter-blockade' of the United Kingdom whereby certain Swiss exports had to receive transit permits, or *Geleitscheine*, issued by the German legation in Berne. All Swiss goods and raw materials of war potential fell within this list; war materials themselves could not be exported at all. The remaining Swiss exports could be exported only in 'normal' (1937 or 1938) quantities.² The Swiss claimed to have fought a long battle in the recent negotiations to try to obtain some amelioration of these restrictions on their exports, but the Germans for their part had sought to stop exports to the United Kingdom, the British Empire, and the United States altogether. Certain commodities had none the less been removed from the *Geleitschein* list; these included centrifugal pumps, alternating current motors up to 200 kgs., transformers up to 500 kgs., machine converters up to 200 kgs., and complete watch movements with the exception of chronograph movements. Certain other goods, the export of which had been restricted to the 1937-8 level, were given increased quotas; these included aniline colours, pharmaceutical products, and finished movements. The increase in exports represented about 100 million francs. But the Ministry found that these concessions were of little practical value and did not touch commodities such as machine tools which were of most use to the

¹ Arrangements were also made for the regulation of the clearing and commercial settlements of occupied territories. Commercial exchanges with Holland, Belgium, and occupied Norway were regulated more or less by the existing agreements. New credits were limited and arrangements were made via Berlin although currency settlements with regard to merchandise were to be made direct with competent authorities in Belgium, the Netherlands, and Norway. Alsace-Lorraine, Luxembourg, and occupied Lower Styria were treated as part of the Reich, all arrangements being made via Germany.

² E.B., i, 588.

British war effort. The Swiss estimated that 20 per cent. of their exports were controlled by Germany and Italy by means of *Gelbitscheine*. Of the remaining 80 per cent., 10 per cent. were on the Free List and 70 per cent. were controlled by the Swiss on the basis of normal current exports, i.e. of the years 1937 or 1938.

The British reply to the German-Swiss agreement was prompt and explicit but, in intention, cautious. It was decided to withdraw facilities for practically all Swiss imports with the exception of foodstuffs, fodders, and oil and fats for soapmaking. In a note to the Swiss Government of 10th September 1941, Mr. Kelly said that his government was prepared to discuss arrangements for the continued import of certain other consumption goods, but it could not allow any further imports of raw materials and of goods which could directly or indirectly serve to benefit Britain's enemy. In the preliminary interdepartmental discussions in London there had been no serious objection to this course, although the Foreign Office insisted on the overriding condition that nothing must be done which would result in a breach of diplomatic relations and the loss of the political and other advantages mentioned in the first paragraph of this chapter. The Swiss took the announcement calmly enough, although with *pro forma* warnings of the danger that they might be driven still further into economic dependence on Germany.¹ This situation led, as had been intended, to Swiss proposals for reciprocal concessions, and the resulting negotiations form the main theme of this chapter. It was not until December 1942 that the two powers were able to arrive at even a limited 'compensation agreement' on these lines. In short, British, and later Anglo-American, efforts to secure the restrictions of Swiss exports to the enemy failed in this period. On the British side the Ministry was hampered by Foreign Office caution and the American process of self-education during

¹ A brief statement was broadcast by the B.B.C. at 9 p.m. on 24th September 1941 saying that in view of the recent Swiss-German agreement the British Government must discontinue the limited facilities for the importation through the blockade of materials for Swiss industry. It added that the difficulties of Switzerland's position were appreciated, and that imports of foodstuffs, fodder, and certain consumption goods would continue. Reuter's message repeating this was broadcast by the Swiss wireless and published in all the important Swiss journals on the 26th. Some papers reproduced a brief statement from the *Daily Telegraph* slightly amplifying the B.B.C. announcement. Mr. Kelly considered the timing of the B.B.C. announcement unfortunate; the Swiss National Council were in the midst of a difficult debate involving questions of prices and wages, and the British move was likely to give the opposition material for attack on the Government, which might defend itself by attacking British policy. Swiss press comment during the next few days showed little knowledge of the restriction of exports to Britain. The *Gazette de Lausanne* made the remarkable assertion on 27th September that the two groups of belligerents were approximately equally treated in export-import arrangements; there was no question of favouring one rather than the other. The Ministry regretted the timing of the B.B.C. announcement, although it had no warning from Switzerland that the moment was inopportune, and suggested that from the general point of view of Anglo-Swiss relations it might be argued that there was some advantage in having the question ventilated.

1942. On the Swiss side progress depended on the Government's success in preliminary bargaining with the Germans and Italians.

Before Pearl Harbour the United States took no very active part in pressure on Switzerland, beyond freezing Swiss funds in the States and allowing them to be used only against guarantees that no enemy interests were involved. Indeed, during the period from August to the end of October 1941 the rate of United States exports to Switzerland rose sharply; their value during these three months was 5,442,000 dollars as compared with a total of 4,465,000 dollars for the six months, January to June 1941.¹ To bring American and British policy in line the State Department sent a memorandum to the Export Control Policy Committee on 17th November recommending the adoption of the British decision of September, namely, (1) to prohibit all Swiss imports of industrial raw materials, (2) to permit imports of foodstuffs and fodder (with certain exceptions), and (3) to permit some imports of finished products or consumption materials. This changed policy did not, however, come into effect until early in December 1941 and even then no attempt was made to revoke outstanding licences which ran counter to it. It was not until the following February (1942) that the new Board of Economic Warfare turned energetically to the consideration of the Swiss situation.

The outlines of a possible Anglo-Swiss bargain were sketched in conversations at Berne during the week following Mr. Kelly's announcement of 10th September 1941. Following a British suggestion the Swiss representatives agreed on 18th September that they might enter discussions with the Axis countries with a view to obtaining export permits for certain Swiss articles of primary interest to the British war effort. These goods had in the main been ordered and sometimes paid for before the collapse of France; their export would be evidence to the British Government of Swiss goodwill and ability to resist Axis pressure. The Swiss pointed out that many of these goods would contain raw material imported from Germany, and they urged the desirability of imports through the blockade of raw materials to replace those that would be used. Although the Ministry considered some of the details to be impracticable its reply was encouraging, and after further discussions in the Mixed Commission a revised proposal was put forward by the Swiss delegates early in November.² Assuming that United Kingdom and United States

¹ According to a report of the European-African Division of B.E.W., dated 10th February 1942, the most important quantities involved in the exports of the period Aug.-Oct. 1941 were: rice 3,405 tons; wheat, 8,910 tons; edible vegetable oils, 1,408 tons; refined sugar, 8,257 tons; cotton, 7,571 bales. These were, of course, purchases for export; owing to the suspension of British quotas and shipping difficulties they did not necessarily leave the United States.

² The Ministry's willingness for a bargain was perhaps strengthened by the Prime Minister's intervention. On a telegram from Mr. Kelly of 2nd October Mr. Churchill wrote, 'can I have a short explanation on one page of what we and the United States have

requirements for 'priority supplies' from Switzerland could be reckoned at 5 million francs a month on the basis of the optimum 1939-40 trade statistics, the Swiss Government was prepared to press the Axis for transit permits for these commodities; in return they asked for monthly delivery through the blockade of 6,000 tons of iron and steel (approximate value 2,500,000 francs), 1,000 tons of copper (1,600,000 francs), 400 tons of lead (400,000 francs), 30 tons of nickel (150,000 francs), and 50 tons of tin (350,000 francs). If this plan succeeded, Switzerland would expect the restoration of the quotas for raw materials.

The Ministry believed that 2 or 2½ million francs a month would amply cover Anglo-American requirements and it regarded the Swiss proposal as unacceptable in this form because it provided no security that goods admitted through the Allied controls would not be used to facilitate exports to the enemy. Moreover copper and lead would present difficulties in view of Swiss stocks. Nevertheless it was prepared, in return for 2 to 2½ million francs' worth of Swiss supplies, to give navicerts for raw materials to the same value selected from the Swiss list if it could be ensured that they were not used for the benefit of the enemy. It recognized that it would not be practicable to try to secure a total embargo on the export to the enemy of manufactured goods into which the listed materials entered, since the enemy were already to some extent supplying their own raw materials for manufacture in Switzerland, but it thought that it might be possible to secure an undertaking that exports of manufactured and semi-manufactured goods to German Europe would only be allowed if they contained no raw materials 'of a type' imported through the British controls, or if the enemy had supplied all the raw materials entering into their manufacture. The Ministry's private opinion was that the whole question was largely academic, for it seemed unlikely that the Germans would ever allow the Swiss to make any such agreement. But if they did the balance of advantage would certainly be on the British side.

A bargain on these lines was suggested to the Swiss in a telegram of 25th November and the Ministry agreed on 9th December, in reply to a Swiss enquiry, that, if the new quotas for raw material

done here to Switzerland? This seems a severe criticism.' The telegram had quoted a comment of the *Frankfurter Zeitung* of 30th September that the Swiss were being punished for not officially fighting on England's side and for not breaking off all trade exchanges with the Reich, and that while Europe was struggling under severe credit and currency difficulties, America, although swimming in gold, had confiscated Swiss refugee capital and also the deposits and assets of the Swiss National Bank. The Ministry's one-page reply said that an increasing proportion of Swiss industry was working exclusively for the enemy, and that the Americans had done no more than freeze Swiss funds in the United States, allowing them to be used only against guarantees that no enemy interest was involved. 'This is inconvenient for the Swiss, but no more than they deserve; for there is plenty of evidence that Swiss funds have in fact been used to finance enemy purchases in neutral countries.'

were eventually granted, products containing them could, in accordance with the war-trade agreement, be exported to 'approved destinations', but not to German Europe. The essential condition for the success of this compensation programme was the agreement of the Italian and German Governments to the export from Switzerland of goods required by Great Britain, and during December the Swiss began to sound the Germans on this point.

Simultaneously with this programme a second plan for the exchange of goods—and one more immediately advantageous to the British—was being discussed with the Swiss authorities, and it was made clear to them that British agreement to the general compensation programme would depend on their rapid meeting of the Ministry's wishes in this second case. Its aim in its original form was to send to Switzerland a British civil aeroplane which would return the same night loaded with urgently needed priority material. Mr. Dingle Foot, who conducted these highly secret and rather hopeless negotiations with undaunted assiduity, broached the matter to the Swiss minister, M. Thurnheer, late on the night of 31st October, after first securing the provisional consent of Sir Archibald Sinclair, the Air Minister. He suggested that the Ministry might be prepared, if the aeroplane project were allowed, to grant in whole or in part facilities for the import through the blockade of certain materials needed primarily, and urgently, by the Swiss army. This proposal was telegraphed to the British legation in Berne on 5th November, and preparations went forward in England for the flight, and in Switzerland for the collection and package of the goods to be taken away by the aeroplane. As the flight could not be carried out by moonlight it was decided early in November to undertake it during the first week or ten days of December, and it was now preferred that the plane should land at Zürich, load, fly to Malta, unload there, and go on to Egypt, after which the goods would be brought from Malta to England by other means.¹ Would the Swiss agree? At first there were encouraging signs. It was known by 11th November that the Swiss army authorities were enthusiastic, and that the civil authorities were at least non-committal; for the next three weeks discussions went on between the legation and these two authorities assisted by M. Thurnheer, who was in Switzerland on leave. An early objection from the Swiss side was that no Axis aeroplane had been allowed to take anything away from Switzerland. The Ministry felt that this objection could easily be disposed of: it was obviously unnecessary for the Axis to import from Switzerland by air, and if they did do so the British Government would have no

¹ A fortnight later the Air Ministry altered the plan again and was prepared to send one plane on two occasions at short intervals to return to England on each trip instead of going on to Malta.

ground for protest, for Switzerland would not be acting in an unneutral manner. The Swedish Government openly allowed a regular service with the United Kingdom and had successfully asserted to the Germans that this was in no way unneutral. Later, on 24th November, the Ministry sent a further argument: surely it was hardly compatible with neutrality for the Swiss to act in effect as agents for the German Government even when the goods concerned were their own domestic products and would not pass through the German control?

However, it gradually became evident that the Swiss Government was not prepared to take the risk of offending Germany. After the Swiss General Staff had strongly supported the plan the matter was considered by the Federal Council, whose definite refusal was given to Mr. Kelly on 8th December—the day after Pearl Harbour. The Swiss arguments were cautious and legalistic. M. Pilet-Golaz told Mr. Kelly that the flight from Switzerland could not be 'regular' unless the agreement of the French Government were obtained as required by the International Air Convention; and that the argument put forward by the Ministry on 24th November would equally justify the Swiss Government in winking at the roundabout and clandestine export to Germany of goods which the Swiss had promised the British Government should not go there. They had given similar undertakings to the German Government. Only by having nothing to conceal could they retain complete confidence, and resist incorrect demands; without it they could not undertake the protection of foreign interests. It was supremely important for them to avoid any action which they would be unable to explain.

This reply left little hope that the aeroplane scheme in its original form could succeed. But the Ministry was reluctant to drop it. The interests of the Swiss Government in the success of the general compensation plan and in the securing of supplies for the Swiss army compelled it to seek means of satisfying the Ministry, and accordingly the two transactions continued under discussions until the spring of 1942. One Swiss suggestion was that the British priority supplies should be sent with the first consignment of goods from Switzerland the export of which it was hoped that the Axis (and in the first instance the Italians) would approve. But as the need for the supplies was urgent, and the consent of the Germans still appeared highly doubtful, the Ministry put forward a second version of the aeroplane proposal. In November M. Thurnheer had suggested the use of a Swiss aeroplane and after some hesitation the Air Ministry agreed that facilities could be arranged. Mr. Kelly was therefore instructed on 13th January 1942 to do what he could to secure the agreement of the Swiss civil and military authorities to this plan. But he could get no definite answer from them during the following weeks, and

in the meantime the Ministry's bargaining position seemed to be weakening, owing to the increased demand for raw materials for the Allied war effort which followed the entry of the United States into the war. This applied particularly to rubber. On 13th January the Ministry had had to tell Mr. Kelly that it could not guarantee to find all the goods for the Swiss army that it had promised on 5th November.

At this point too the Foreign Office showed a not uncharacteristic impatience with the tactics of the blockade. On 17th January 1942, following a report that skis, boots, and woollen clothing were being collected in Switzerland for export to Germany, the Ministry reacted sharply, and instructed Mr. Kelly that if this collection and exportation were permitted there would be no question of the reopening of quotas for wool and leather, whatever the results of Swiss negotiations with Germany for increased facilities to trade with the United Kingdom. In the meantime the issue of authorizations under the quotas for woollen manufactures, piece-goods, and yarns would be suspended. The Swiss reply on 18th January was that it was too late to prevent exportation; only used clothing was being sent, and the collection was limited to members of the German colony. It was also explained that a refusal would endanger the compensation negotiations, but the legation retorted that the Ministry was not prepared to bribe the Germans in order to obtain special supplies. Accompanying this episode there had been reports of the manufacture in Switzerland of a large number of shoes for export to Germany. In this case Germany was supplying the bulk of the material, although the Swiss were to supply the cloth uppers for the shoes. It appeared that the quantity of shoes to be exported was far in excess of what was allowed in the Anglo-Swiss war-trade agreement. The Ministry told the Foreign Office on 25th January that these were new instances of Swiss subservience to Germany, and it considered that the only effective action in reply would be the imposition of further restrictions on Swiss imports: it recalled that a recent decision to prohibit the import of sausage casings in view of Swiss exports to Germany had at once produced a Swiss ban on the export of casings.

But the Foreign Office was unenthusiastic. It agreed on 2nd February to the cutting off of Swiss textile imports in view of Swiss textile exports to Germany, but argued that the considerations in the previous August which had ruled out any course leading to a diplomatic breach were, if anything, stronger than before, since in the intervening period Switzerland had agreed to take over from the United States the charge of British interests throughout the world. It insisted, therefore, that it was essential on general grounds to accompany the action about textiles with a corresponding concession, such as a

favourable response to the long-standing Swiss Army request for supplies. The Ministry, somewhat exasperated by this attitude, pointed out (on 9th February) that it was bargaining supplies for the army against increased exports to England of Swiss priority goods, and also that there were now good prospects of a favourable turn in the Swiss-Italian negotiations: it was, therefore, hardly the moment to throw away its best bargaining counter. But in reply to this the Foreign Office on the 13th insisted that it was 'unrealistic to endanger our whole policy towards Switzerland by holding its implementation up indefinitely for the result of negotiations dealing with one aspect only of that policy and which [*sic*], if previous experience is any guide, are unlikely to achieve any substantial progress in the immediate future'.¹ The letter again laid down the strange principle of negotiation that 'a hardening in our attitude on the first question [textile exports] should be balanced by some concessions to the Swiss on the second [army supplies]'. Presumably as a result of this letter² the Ministry decided to keep the quota for woollen manufactures and semi-manufactures closed only until the amount involved in the collection for Germany had been worked off; to keep the quotas for cotton goods closed on the ground that exports to Germany had been substantial and had exceeded imports from Germany; but not to hold the Swiss to the terms of the war-trade agreement with regard to the export of shoes to Germany since Germany was supplying the bulk of the raw material. On the other hand 'some fresh and realistic arrangement' would have to be devised before any raw materials could be allowed through the British controls.

At this point the first American comments on the Swiss situation reached London, and they showed that the Board of Economic Warfare was as critical of the Ministry's leniency as the Foreign Office had been of its attempted toughness. The Board's views were set out in a 22-page memorandum³ which said that in spite of the recommendations of the State Department on 17th November 1941⁴ the policy of prohibiting the export of goods which would directly or

¹ The F.O.'s only justification for the last statement was a telegram of 4th November 1941 reporting a Swiss statement that the Swiss-Italian negotiations were hanging fire. It ignored the fact that in its letter of 9th February 1942 M.E.W. had quoted the Swiss Minister as saying that he was optimistic about these negotiations.

² There are no minutes or other comments in the M.E.W. files on the F.O.'s attitude as displayed in this letter. There seems no ground for the latter's fear that the Ministry's pressure on the Swiss Government was likely to lead to a diplomatic breach; in fact the Ministry's tactics had already largely succeeded.

³ 'Suggested Export Policy towards Switzerland' (First Draft—February 10, 1942), SECRET—European-African Division, Board of Economic Warfare. A covering letter from the British embassy on 14th February commented, 'It's not so bad as I feared it might be but there is the usual inherent assumption that after two years and a half we still don't know much about Economic Warfare which is so simple!'

⁴ See p. 213 above.

indirectly serve to benefit the enemy had not yet been fully implemented in the United States. It recommended that the export of industrial raw materials, machinery, and fuels to Switzerland should continue to be prohibited according to the existing policy, and that shipments of food and feedstuffs should be greatly reduced and made contingent in some cases upon the receipt of strategic articles from Switzerland. However,

the tightening of United States control on exports to Switzerland in itself cannot be effective except with regard to goods which Switzerland cannot import from other overseas sources. As long as the British rationing system remains on a more liberal basis, Switzerland would be enabled to substitute for its restricted imports from the United States by diverting its purchases to other sources. The sole result would be added inconvenience to the Swiss, and a loss of sympathy for the United States. In order to avoid these consequences, it is suggested that the British Ministry of Economic Warfare be consulted at an early stage in order to coordinate British-American policy.

Almost immediately the Board decided that it would like to examine the position further, but it asked on 14th February that the Ministry should postpone consideration of the Swiss quotas for the June quarter pending the result of these further deliberations. The whole position was, however, now changed by the sending of a Swiss delegation to London for the completion of the 'compensation' negotiations.

(ii)

The Sulzer mission

The position at this point was that the British Government had two economic objectives in Switzerland. The first was the limited one of getting about 2½ million francs' worth of goods a month out of Switzerland in return for allowing in monthly imports of corresponding value (the 'compensation' deal); the second was the wider economic-warfare aim of cutting down Switzerland's trade with the Axis powers, offering as an inducement the restoration of the quotas which had been suspended since September 1941. The Swiss would be having the best of both worlds if they could secure the restoration of all the quotas by means of the compensation agreement without having to reduce their profitable trade with Germany. Negotiations would be useless under the first head unless the Germans would agree to the export of Swiss goods needed by the Allies, and there seemed no reason why they should do so. However, M. Thurnheer hinted on 20th February that the delegation would not arrive empty-

handed, and the Ministry and Foreign Office did not object to its coming.

M. Thurnheer's hint meant that the Swiss negotiations with Italy and Germany for permission to export to the United Kingdom were making some progress. How much was difficult to discover. It was known that in the Swiss-Italian trade discussions which had started in December 1941 the Italians were much aggrieved by the unwillingness of the Swiss to offer terms as favourable as those secured by the Germans. This was clearly too much to expect, as was also the satisfying of the Italian desire for a credit of so large a figure as 100 million francs; nevertheless the Swiss, who were under obligation to Italy for transit traffic, got as far in January as an offer of 50 million francs. In return the Italians would be expected really to assist the Swiss in maintaining their overseas contacts and also to give facilities for the export of special supplies for Britain. At this point in the negotiations the Italian delegation went home, explaining that this was merely a 'suspension' and not a rupture of discussions. It appeared that progress was really being held up by German-Italian differences, particularly over aluminium. The Swiss-German agreement gave Germany the bulk of Swiss aluminium, some of which had then been sold to Italy at an exorbitant price; Italy had retaliated by withholding alumina shipments to Switzerland since Christmas 1941. It was not until the following May (1942) that this deadlock was removed, and reports reached London that the Germans had recently taken a less dictatorial tone in their negotiations with the Italians. It was understood that they had agreed to allow the export from Switzerland of certain priority goods to Britain, and had left it to the Italians to use this as a bargaining weapon in negotiations with the Swiss. The Italians for their part accepted a German-Swiss agreement whereby two-thirds of the aluminium manufactured from their alumina should be returned to Italy during 1942. The Swiss-Italian discussions for Swiss exports to Allied countries were then renewed, and by 5th August had gone far enough for a Swiss delegation to go to Berlin to complete the German side of the bargain; Italy formally approved this arrangement on 12th October.

Thus there was always a possibility between February and October 1942 that Switzerland would secure Axis permission to export to Allied destinations; and this was just sufficient to keep the discussions in London alive. On the other hand the continued uncertainty as to Germany's attitude helped to damp down the British counter demands. The Swiss, like the Swedes, appear to have believed in the tactical advantages of these simultaneous negotiations.

The Swiss mission, as announced on 17th February, was to consist of Dr. Hans Sulzer, Professor Rappard, Professor Keller, M. Boller,

and M. Lujean as secretary; subsequently M. Ernst Probst, director of Sandoz Ltd. of Basle, joined the delegation. The leader, Dr. Sulzer, had been Swiss minister in Washington during the first World War, and as head of the Swiss War Economic Organization in Berne had been closely concerned with earlier negotiations on blockade questions with the Allies.¹ Yet it was a strange choice in some ways, for the firm of Sulzer Brothers, of which he was president, was the largest Swiss manufacturer of gas and diesel engines and other heavy machinery and was doing a prosperous trade with wartime Germany. The delegation, which was welcomed by Lord Selborne on 23rd March, naturally sought to limit the discussions to trade relations between Switzerland and the Allies;² at this meeting Dr. Sulzer referred only to the terms of the compensation agreement, the heavy blow to Swiss industry involved in the recent reduction of permitted enemy content in Swiss exports, and the Swiss banking and financial questions in which the Ministry's demands were not clearly understood. After it had been made clear that the British were interested both in the increase of Swiss exports to the United Kingdom and in the reduction of the Swiss contribution to the German war economy, detailed discussions began after opening meetings on 25th and 27th March. On the 27th Mr. Foot insisted that strategic materials which were made available by the Allies could not be allowed to be used in any exports to the enemy; Dr. Sulzer protested that the materials were necessary in order to maintain manufacture and employment and prevent such German retaliation as the cutting off of coal supplies to manufacturers producing goods for the Allies. The British delegation however was not prepared to accept the unmodified working of the war-trade agreement of 25th April 1940 on this point. The Swiss finally agreed that by examining the commodities one by one it might be possible to reach some agreement without the abrupt change of principle which would necessarily attract German attention.

The next stage in the negotiations was therefore the examination of three problems. The first concerned what might be called the war trade aspects: that is, the reopening of the quotas for industrial materials which had been closed in the previous July 1941 and the restriction of Swiss exports to Germany, Italy, and the occupied territories. The second concerned the compensation agreement, and the third the financial questions for which the Treasury was mainly

¹ Cf. E.B., i, 225-6.

² In a memorandum sent to Mr. Eden on 24th March Dr. Sulzer said that Germany had utilized the overdraft provided under the clearing agreement to the amount of 150.5 million Swiss francs only, and that the constant flow of imports from Germany exceeded that of Swiss exports to Germany by 79.2 million francs during 1941. 'His Majesty's Government will appreciate that it is impossible to suspend Swiss deliveries to Germany in disregard of existing agreements.'

responsible. For the next three months these three problems were treated more or less independently of each other, although there were obvious inter-relations: thus the cutting down of Swiss exports to the enemy would depend in part on the attractiveness of the inducements that the Allies could offer in raw material imports, but this in turn would depend in some measure on what the Germans and Italians were prepared to concede with regard to the compensation agreement, and on the Allies' need for Swiss goods.

But on this last point there were already growing doubts in London. On 25th March Dr. Sulzer at the opening meeting presented detailed figures showing (1) Swiss suggestions for exports to the United Kingdom, the British Empire, and the U.S.A. amounting to 2,502,185 Swiss francs monthly, and (2) a list of the same goods amounting to 2,820,155 which had been discussed with the Germans and Italians.¹ When the Ministry of Supply examined the position in April it came to the conclusion that it now needed very few of these goods, and questioned whether it was desirable to release scarce materials such as rubber and copper in exchange. This declining interest was due partly to increased British production, partly to the promise of goods from America,² and partly to the fact that other goods were being brought out of Switzerland by successful smuggling. There remained it is true some demand from other departments for Swiss goods, and the Ministry accepted the view of the Foreign Office and the British legation in Berne that the conclusion of the compensation agreement was necessary for political and military reasons. Nevertheless uncertainty on this point complicated the search for an agreed basis of negotiations with the United States authorities during May, and it was not found possible to present a joint Anglo-American reply to the Swiss compensation proposals before 6th June.

In the circumstances it must be said that B.E.W. and the State Department showed the utmost goodwill in adjusting their ideas to the rather contradictory suggestions that came from London on this question. The first version of the B.E.W. memorandum on Switzerland on 14th February had been carefully revised and edited by the State Department, and the British embassy went out of its way, in a telegram of 24th April, to impress on the Ministry that the various 'recommendations' should not be regarded as final opinions but rather as tentative statements of B.E.W.'s views. 'Those responsible

¹ The Swiss list consisted of the following items: watch makers' tools, precision tools, screws and nuts, ball-bearings, rivets and screws, copper wares, dynamo-electric machines, motors (driven by gas, petroleum, benzine), machine tools, other machinery, parts of watches, chronographs, motor-car watches, astronomical, geodesical, and mathematical instruments.

² For example, 1,000 stop-watches a month were to be delivered by U.S.A. under Lease-Lend from July onwards, with much larger quantities later.

have taken on the job with creditable enthusiasm and with the real belief that 100 per cent. American cooperation will enable a better deal to be done with the Swiss than it was possible for you to do alone. Individual members of B.E.W. appreciate however that they do not know all the facts and that arguments which appear powerful to them may be very materially affected by other considerations known to you of which they are unaware.' Although critical of some aspects of the British blockade they appeared to regard the Ministry as fellow sufferers from the lethargy of the United States Government in planning an effective policy towards the European neutrals.¹

The Board's view, as explained to the Ministry early in May, was that the export of industrial raw materials, machinery, and fuel to Switzerland should continue to be prohibited and should not be bartered for machine tools, etc., and that increased imports of food and feeding stuffs would form an adequate bargaining weapon because the Germans greatly desired to maintain Swiss overseas food supplies. The Board sent a short list of priority commodities which might be exported to America under the compensation agreement, but explained that the list was drawn up principally as a means of forcing the Swiss to limit their contribution to Germany and to relieve the immediate American skilled labour shortage; failure to secure these goods would not appreciably hinder the war effort, and the Board was unwilling to barter strategic materials for them. This was rather awkward, but a long telegram of 7th May set out the British objections to the use of food as a bargaining weapon. The following, it said, were the four main objects of British policy:

1. to maintain Swiss political independence and the non-economic facilities which the Allies obtain from Switzerland (intelligence, protection of interests including prisoners of war, moral value of a democratic Switzerland);
2. to reduce Swiss economic assistance to the Axis;
3. to obtain important supplies for the Allies;
4. to secure financial agreements which would enable the Allies to obtain Swiss francs for essential expenditure without benefit to the enemy.

The first had been secured hitherto by the existing blockade policy whereby foodstuffs were allowed freely, although raw materials were cut off. The Ministry did not think that it would be practicable to use the threat of reducing the existing food quotas in order to obtain

¹ The embassy might here perhaps be hinting that B.E.W. also regarded themselves as fellow sufferers with the Ministry from the unwillingness of the Foreign Office to push any blockade policy to the point of endangering diplomatic relations with the neutrals. The brief reference to B.E.W.'s attitude towards Switzerland at this point in Gordon and Dangerfield, *op. cit.*, (p. 71) does not mention either the differences between B.E.W. and the State Department, or those between the Ministry and the Foreign Office.

objectives 2, 3, and 4 without risking the loss of 1, and making the Swiss so dependent on Axis supplies as to be unable to resist absorption in the Axis economic order. The Swiss could not give the supplies under objective 3 without German consent: the threatened reduction of food supplies would therefore be a double-edged weapon. The Ministry's proposal was, therefore, to offer to reopen certain quotas for raw materials in return for further restrictions on exports to the Axis, and to make some concessions about the enemy content of Swiss exports in order to secure 4. If agreement were reached on 1, 2, and 4, then 3 could be treated as a more or less separate issue. This full explanation was accepted readily by B.E.W. and the State Department, which sent a telegram to its embassy in London on 20th May authorizing it to participate in negotiations on these lines.

However, these exchanges had shown that neither government was interested in the compensation deal in its original form. There was no chance that the Combined Raw Materials Board would agree to supply scarce raw materials on the scale proposed by the Swiss (2½ million Swiss francs a month). The British Supply authorities were also reluctant to release scarce raw materials except in exchange for their very short list of vital requirements from Switzerland. On the other hand the compensation deal in some form seemed still to be desirable as part of the wider negotiations. A sudden volte-face after the previous demands would hardly be explicable to the Swiss and it was unlikely that they could be persuaded to reduce supplies to the Axis unless they were given alternative orders. The new British minister in Berne, Mr. Clifford Norton,¹ believed that the chief fear of the Swiss authorities was not invasion but (a) unemployment through reduction of raw materials and orders, and (b) all the social troubles in Europe which the eventual collapse of the Axis might produce.² Accordingly, on 6th June, after consulting other departments in London, the Ministry proposed a compromise solution to Washington—a single limited exchange of goods to the value of £150,000, half for the United Kingdom and half for the United States. This was quite acceptable to the Americans, although there followed some hard bargaining between the departments in Washington as to whether some rubber should or should not be released, and this incident played its part in the wider struggle against the extreme demands of the military authorities for a tough policy towards all the neutrals. The lists were handed to the Swiss delegation on 6th June, and it was stipulated that whatever raw materials

¹ He succeeded Mr. Kelly in April 1942.

² 'Luigi Cortese, consul general in Geneva, informs us that fear of invasion is over in Switzerland because no one any longer believes in a complete German victory. In fact, forecasts are of an entirely different nature.' *The Ciano Diaries* (New York, 1946), p. 458, under 7th March 1942.

were made available should be used for the manufacture of supplies for the Swiss Army. When they showed their natural disappointment at the restricted list they were told that they would be lucky to obtain even this.

Thus the Ministry had shifted the emphasis of the negotiations away from the obtaining of priority supplies for the Allies, with a consequent stress on the reduction of such supplies to the Axis. Discussions on the amendment of the war-trade agreement with the latter end in view had continued since the British demand of 27th March, and a large measure of agreement had been reached on the less important commodities by June. The British had not asked for any alteration of the original structure of the agreement, which was based on the establishment of three lists defining Switzerland's export possibilities. List A enumerated the commodities which were not to be exported to any destination; list B¹ the commodities the future export of which was as a rule not to exceed the quantities exported in 1938; list B² the commodities for which special export quotas were expressly specified. The British proposal was that a considerable number of commodities which were included in lists B¹ and B² should be transferred to list A and that as a consequence their future export should be prohibited. This, as was explained at a further meeting with the Swiss on 3rd April, meant that the Ministry could no longer accept the principle implicit in the war-trade agreement of 1940 that imported materials could be used in the manufacture of goods for export to Britain's enemies. The Ministry also felt that it must insist, with regard to goods remaining on list B¹ or transferred thereto from list B², that the permissible exports to enemy-occupied or controlled Europe must not exceed the 1938 exports to Germany, Poland, Austria, Czechoslovakia, and Italy. The Ministry could not accept the principle that Germany was entitled to greater imports just by reason of overrunning further territories. On the other hand the permissible exports to German Europe would be on a global basis, so allowing a certain elasticity.

It can broadly be said that by the end of June agreement had been reached on the revision of the three lists as far as concerned the less contentious items. But the Swiss were unable to give way on three points. They wished to continue exporting a certain amount of dairy produce and cattle to the enemy, and had been told in reply that the Allies would have to reduce the import of fats and cut off entirely the import of feeding-stuffs. As a result the quota for food-stuffs was suspended in April. Similarly cotton imports would be stopped if the Swiss continued to export cotton piece goods to the enemy; they argued in reply that they wished for some latitude in this case in order to obtain various goods from enemy-controlled territory. Thirdly, they had been pressed very strongly to reduce their exports

of machinery and armaments to Germany, and on this, the most important issue in the negotiations, no solution seemed in sight. The Ministry recognized that exports in this last group were very difficult to stop, since none of the raw materials was imported through the Allied controls; attempts to bribe or threaten the Swiss could be met perhaps by greater bribes, certainly by greater threats, from Germany.

The extent of these exports became known¹ during the discussions; the figures were disquieting. They are set out in the following table.²

Switzerland
Export of Arms and Ammunition (1937–March 1942)

<i>Year</i>	<i>Small arms ammunition</i>	<i>Arms of metal</i>	<i>Total</i>
1. BY WEIGHT (metric tons)			
1937	454	108	562
1938	448	207	655
1939	946	218	1,164
1940	1,929	926	2,855
1941	2,252	1,515	3,767
1941 (Jan.–March)	730	329	1,059
1942 (Jan.–March)	178	195	373
2. BY VALUE (millions of Swiss francs)			
1937	24·5	11·9	36·4
1938	27·7	15·0	42·7
1939	45·2	18·7	63·9
1940	96·8	55·5	152·3
1941	110·2	86·4	205·6
1941 (Jan.–March)	36·1	19·1	55·2
1942 (Jan.–March)	11·0	19·0	30·0

In round figures, exports of armaments had increased from 43 million francs in 1938 to about 205 millions in 1941; the total export of the principal machinery items to enemy and enemy-occupied territory had increased from 236 millions in 1938 to 300 millions in 1941. The number of Swiss workmen directly employed on German orders

¹ The Statistics Section of the Ministry had hitherto assumed that exports of war materials were not included in the published Swiss trade returns. A Swiss official explained in June that the totals included not only the active processing trade but also all armaments exports, and although individual items were not listed, the Ministry was thus able to gain a clearer idea of the money value of the Swiss contribution to the Axis war effort.

² See J. Ragoz, 'Die Ausfuhr von Kriegsmaterial aus der Schweiz während des Zweiten Weltkrieges', *Der Aufbau*, Zürich, 8th April 1949, for a later Swiss commentary on these figures, as published in the official trade returns. The total exports in 1941 included 122 million francs worth for Germany, 61 millions for Italy. Figures for 1940 had been 33 millions for Germany and 34 millions for Italy. Cf. E.B., i, 588, fn. 1.

by firms known to be working for Germany was estimated at 18,000; the total labour of these firms was estimated at about 60,000.¹

The Foreign Office was uneasy over the cutting off of Swiss feeding-stuffs, and in a personal letter to Lord Selborne on 14th July Mr. Eden said it might lead to dangerous political consequences. But the Ministry did not believe that the Swiss would allow the negotiations to break down on this point alone, and the State Department considered that it would be unwise to agree to the export of cattle unless concessions were made by the Swiss in other directions. On 19th August the Swiss delegates offered to reduce exports of cattle to the Axis from 10,000 to 9,000 head, but could not go below their existing offer to limit the export of cotton piece goods to 1,290 tons a year spread over enemy and occupied territories in fixed proportions. They added that they still had stocks of raw cotton which would enable some exports to continue in the absence of a cotton quota. By this stage the most important issue seemed to the British and American Governments to be the continued supply of armaments and machinery to Germany, and on 1st September they offered, in return for a reduction in exports of munitions and machinery, to allow continued Swiss exports of dairy produce and cattle, and of cotton rags and piece goods, up to the limit which the Swiss themselves had proposed.²

Thus the negotiations were now concentrated on a single problem—Swiss exports of ammunition and machinery—and to this no solution could be found during 1942. It will not be necessary to follow their course in detail, for many proposals were advanced and withdrawn on both sides. Briefly it may be said that Dr. Sulzer had insisted from the start (in May) that the Swiss Government could not agree to remove exports of her mechanical and metallurgical industries from the free list, nor to assure reduction to the *courant normal*; but he had explained later that these exports had reached their highest level and would be expected in future to decline, and it

¹ The division by products was believed to be roughly as follows:

	<i>Total employed</i>	<i>Employed on German orders</i>
Arms and ammunition	15,000	7,500
Machine tools	2,000	1,000
Instruments	3,000	1,500
Other machinery	40,000	8,000
	<u>60,000</u>	<u>18,000</u>

² At this meeting Dr. Sulzer cited the case of a Swiss firm which had recently had instructions to deliver machinery to Germany, and said that the Swiss authorities could not possibly forbid the carrying out of such instructions. The British and United States delegates made it clear that they must reserve in full the belligerent rights of their countries with regard to Swiss trade with Japan and Japanese-occupied or -controlled territory. This meant that they must remain free to seize consignments passing to or from Japan, and that any Swiss firm doing or attempting to do any business with Japan would be liable to be placed on the Statutory List.

would be the policy of the Swiss authorities by indirect measures to hasten this decline. This seemed to offer the basis of an agreement, and the Ministry had drawn up a list of the exports in question, indicating as 'starred items' those which were considered to be of particular importance. The Anglo-American proposal that was presented to the Swiss on 1st September was an elaboration of these earlier discussions, and was believed to be generally acceptable to them. The Allies agreed not to expect any reduction during the third quarter of 1942, but said that they would expect an over-all reduction of 5 per cent. in the fourth quarter, and should expect this to be concentrated on the starred items, so that a higher rate of reduction would be achieved for these. A further reduction of 5 per cent. would have to be effected in each future quarter; fluctuations in price would be taken into account in assessing reductions. But although the Swiss delegates seemed to be favourably influenced by the concessions on cattle and textiles they demurred at the main proposal; Dr. Sulzer objected that a reduction over the year of 20 per cent. was beyond anything he had thought of. Five per cent. for the first quarter after an agreement might be possible, but to go on and on at the same rate was really unthinkable! The Swiss delegates were thereupon left to seek instructions of their government.

Then on 8th September there came the rather startling news that the Swiss delegation which had gone to Berlin on 5th August had secured German agreement to a large compensation agreement between Switzerland and the Allies: the Germans had agreed to issue *Geleitscheine* in monthly instalments for a given list of Swiss exports to the United Kingdom and the United States up to 7½ million Swiss francs for the period September–December 1942, with the possibility of continuation after this date. If unused for one month the issue could be carried forward. This arrangement was subject to the formal approval of Italy (which, as we have seen, was given on 12th October). The list of goods to be allowed was that considered in March and not the smaller revised list which had been discussed in London; the Swiss delegates do not appear to have shown this to the Germans. Since the larger list contained the smaller there was no reason why the arrangement should not be accepted in principle, subject to certain additions and alterations to the list of raw materials to be allowed the Swiss. During the succeeding weeks the British and American authorities became increasingly anxious to complete the compensation agreement in the extended form as a means of strengthening the Swiss hand in forthcoming trade negotiations with Germany.

The Germans were, however, reported to have demanded in return the cessation of Allied pressure on Swiss firms to stop the execution of

Axis orders. What exactly did this mean? Mr. Foot asked Dr. Sulzer on 17th September, 'were we being asked to modify our listing policy in relation to all Swiss firms, or only in relation to those engaged in a certain industry or industries? Were we asked to delist firms already on the Statutory List, or alternatively to refrain from enlarging the List? Were we not to accept undertakings from firms who wished to be delisted, or alternatively from firms in danger of appearing on the list?' Dr. Sulzer undertook to make enquiries. After a further question from Mr. Foot he replied on 23rd October that the Swiss Government would be satisfied for the time being with the cessation of approaches to firms engaged in the watch and metallurgical industries. It was impossible, however, to extract from the Swiss the precise terms of the German stipulation. There was an obvious possibility that they were extending the meaning in their own interests. On 24th October the Ministry telegraphed to Berne that it could not be expected to delist firms already listed, or to abandon any arrangement already concluded, but that it might consider suspending listing activities in relation to manufacturers of machinery if the Swiss Government entered into the proposed agreement over machinery and munitions.

For in the meantime no progress had been made in the attempt to limit exports to the Axis of arms and ammunition. The British proposal of 1st September had not been accepted by the Swiss Government, and from that point discussion had advanced by more or less insensible stages to a British proposal that the items in question, together with some new ones, should be divided into four groups,¹ each with its own formula for limitation or reduction but all embodying the principle that, in addition to a fixed ceiling, or a progressively diminishing ceiling for the group, there should be a fixed ceiling for individual items within the group. On 7th November the Swiss delegation had been presented with a revised arms and machinery formula on these lines, and had, without final approval of Berne, offered some counter proposals. But these appeared to be no genuine concessions, and the Ministry was obliged to ask the delegation point blank to ascertain from their government whether it was prepared to reduce exports or not. The British and American Governments were willing to sign the compensation agreement forthwith, but on 19th November the Swiss refused to sign before the war-trade and financial agreements were concluded.

Little hope of success for the essential Anglo-American demands remained. On 25th and again on 27th November the Swiss delegation in London met Mr. Riefler and the Ministry's representative to consider further points; but the complexity of the discussions could

¹ These were (1) clocks, watches, etc.; (2) less important machinery items; (3) ten essential machinery items, including fuses and machine tools; (4) arms and ammunition.

not conceal the fact that the Swiss had decided not to give way. Dr. Sulzer on 27th November rejected the Ministry's formula of 7th November but offered to take the second quarter of 1942 as a global ceiling for the second and third groups; this was unacceptable, among other reasons because it did not involve any reduction in the current level of exports. Mr. Foot said that he felt no useful purpose would be served by further detailed discussions of items and figures unless the Swiss Government was prepared to contemplate immediate reduction in specific items. If the Swiss were willing to meet the Allies on groups 3 and 4 the Allies would not be too rigid over group 1 (clocks and watches etc.), and would even be prepared to be more elastic over group 2 (less important machinery items). He renewed the Allied offer to sign the compensation agreement forthwith and suspend temporarily pressure on firms.

On 8th December Dr. Sulzer sent to Mr. Foot a somewhat reproachful letter saying that after eight months of negotiations the Swiss had exhausted all possibilities of meeting the British wishes as set out in the note of 7th September 1941; they had concluded the compensation deal and reached an understanding with the Treasury on financial matters, but found it impossible to meet Allied demands on the question of exports of war material and certain types of machinery to Axis powers. As there was at present no possibility of a long-term understanding the delegation wished to return home to report; in the meantime the Swiss Government, being sincerely anxious to reach at least a temporary solution, suggested that the financial agreement should become operative for the period up to 31st March 1943, and the compensation agreement should enter into force immediately.

The Swiss delegation then made preparations to return home; three hours before it left London, on 14th December, notes were exchanged to give effect to the Compensation Agreement, the main agreement still remaining unsettled pending the return of the delegation in 1943.

Mr. Foot and Mr. Riefler sent the following letter on 14th December 1942 to Dr. Hans Sulzer, who acknowledged it in similar terms. This exchange of letters constituted the so-called 'Compensation Agreement'.

SWISS-ANGLO-AMERICAN COMPENSATION AGREEMENT

14th December, 1942

1. We wish to inform you that His Majesty's Government in the United Kingdom and the Government of the United States of America are prepared to avail themselves during the first 4

months of 1943 of the new facilities for export described in your letter of 8th September last which have been offered to them by the Swiss Government, the decision to apply for the present to a first tranche for the approximate equivalent of Swiss francs 2½ millions as set out in the attached schedule. The Swiss Government will issue the necessary export permits and use their best endeavours to procure the corresponding German and/or Italian transit permits and any other facilities necessary for the effective despatch transport and shipment of the goods in question.

2. (a) The British and American Government will issue for the countervalue of the Swiss francs 2½ millions navicerts and/or export licences for, and will make available for export to Switzerland:

100 tons	Toluol
200 „	Copper
200 „	Rubber
7 „	Nickel

and for the balance every effort will be made to make available tinplate, dynamo sheets and/or ordinary steel sheets in approximately equal parts; if these goods are not available, or if the Swiss Government so desire, other goods as mutually agreed may be substituted therefor.

(b) The right of the Swiss Government to obtain the necessary navicerts and/or export licences for the goods mentioned under (a) will become effective simultaneously with the granting of Swiss export licences and German and/or Italian transit permits for the goods specified in the said schedule to an approximately equal value. The Swiss Government will use this right in part amounts of not less than 300,000 Swiss francs each.

(c) The above-mentioned goods are destined for the exclusive use of the Swiss Military Authorities.

3. In regard to the use of the remaining facilities for the export of Swiss goods mentioned in your letter of 8th September and any corresponding Swiss import facilities from overseas, the three Governments will make the necessary arrangements in due course.
4. In the event of any new circumstances arising which in the view of any of the three Governments concerned shall render the effective exchange of goods hereunder impossible, they shall immediately consult together as to the action to be taken.
5. If you will be so good as to confirm that the arrangements set out above are acceptable to you, we suggest that this letter and your reply should constitute an agreement between our three Governments.

The Schedule Above Referred to

Tariff Item	Designation of Goods	Value in Sw. Frs	Max. Weight, or Total number of pieces
M. 6	Machine Tools	720,000	—
632.a.	Emery in powder (other than diamantine)	2,550	4 quintals
747	Watchmakers' Tools	51,000	16.4 quintals
753/6	Precision Instruments	379,100	{ 160,000 Sw. Frs in respect of Instruments less than 500 grammes: 8 quintals 219,000 Sw. Frs in respect of Instruments 500 grammes to 2 kilos exclusive: 16 quintals
830.b.	Rivets and Screws	8,500	60 quintals
834/6	Wares of copper	17,000	53.72 quintals
928	Ships' Chronometers	500,000	1,000 pieces
934.a.	Watch Parts	73,100	31.52 quintals: jewel bearings for measuring instruments and bi-metallic balance wheels excluded
935 d. } 936 d. }	Chronographs	478,750	{ 6,800 chronographs over 15" balance up to 15"
937	Instruments and apparatus: astronomical, geodesical, and mathematical	320,000	28 quintals
		2,550,000	

In another letter the British and Americans agreed to refrain from making 'new approaches', such as had hitherto been made to Swiss firms in the metallurgical and watch industries to induce them to reduce or refrain from accepting work on enemy account. The Swiss in acknowledging this concession asked that if ever the question of similar approaches to firms in other industries arose the matter would be discussed with the Swiss in the Mixed Commission before action was taken.¹ It was pointed out that any such approach to Swiss firms might lead to the refusal of the Germans to grant *Geleitscheine*.

The third letter said that with regard to textiles the British and American Governments found it impossible to make concessions in advance of a general agreement. None the less they were prepared to allow the passage of 800 tons of oats for fodder for Swiss horses, especially those needed for the army. This facility was subject to the following conditions: (a) During the quarter ending March 1943, the Swiss Government would not permit the export from Switzerland of any horses; (b) so far as the Swiss Government were able to ensure it, these oats should be used to feed horses and not cattle; (c) this

¹ The British representative in Berne was secretly informed that the question of prior consultation with the Mixed Commission was to be left to his discretion. 'There is no obligation on you to do so unless you think that it will pay us.'

consignment of oats was to be treated as part of the compensation agreement. It was specified that owing to the rapidity with which this grant for oats was made it was uncertain whether the quantity of oats was immediately available; that the grant was intended to meet the immediate needs, but if a final agreement was reached with the Swiss Government, a higher quota would be considered for the period ending 31st March 1943.

The Soviet trade delegation was informed of the agreement and of the willingness of Great Britain and the United States to share with them on an equal footing the manufactures it was hoped would be obtained. It was, however, agreed that Russia's interest would remain in the background as the agreement was on its face for the benefit of the British and Americans.

Together with the compensation agreement the Swiss had also concluded a satisfactory arrangement with the Treasury in return for which Great Britain was to continue to grant facilities for the export of Swiss goods having an enemy content up to 25 per cent. of the cost. However, early in February 1943 the Swiss Government stated that it was unable at the moment to set formally in force for the first quarter of the year the draft agreement between the Bank of England and the National Bank of Switzerland. None the less this did not alter any of the arrangements made with the Treasury in December, and to prevent the advantages of the agreement being lost the Swiss Government was prepared to make available up to 31st March 1943 francs to the value of two million pounds sterling. In return the British Government agreed to maintain for the time being the existing arrangement regarding enemy content.

In the meantime the prolonged Swiss-Italian negotiations had drawn to a close. On 12th November an agreement had been signed in Rome modifying and prolonging until the end of 1943 the Italian Trade and Payments Agreement. The existing adverse balance in the clearing was rectified by a Swiss advance of approximately 65 million Swiss francs. No provision was made in the clearing agreement for Italy to obtain free exchange. Italy agreed in principle to extend to 31st December 1943 the Berlin protocol in connexion with the compensation agreement, although Germany at this date had not committed herself to the extension. On 29th December 1942 it was stated that the withdrawals from the Italian debit balance in the Italian-Swiss clearing amounted to 101,700 francs. In this connexion it is of interest to note that the amount drawn by the Germans against the permissible advance of 850 million francs available to the end of 1942 amounted to 406 million francs on 29th December 1942.

The failure of the machinery-ammunition negotiations was a great disappointment to the Ministry; the signature of the compensation

agreement could not disguise the fact that the more strictly economic-warfare objectives had been defeated. The proposals of 1st September 1942 had been put forward by the Ministry on the assumption (based on discussions with the Swiss delegates during the preceding weeks) that they were acceptable in principle to the Swiss Government, which at that time was showing anxiety to conclude the negotiations. They represented a modest reduction of Swiss deliveries to the Axis, proportionate to the improvement in the position of the Allies since the summer of 1941. When in the following weeks the Swiss blew cold, and showed a marked reluctance even to discuss the outstanding questions, it was assumed that the Swiss Government wished to avoid any commitment to the Allies until the results of its latest negotiations on economic questions in Berlin were known.

The dilemma facing the British and American Governments in the circumstances was a real one, for the arguments for and against acquiescence in Swiss conduct were still evenly balanced. It was accepted as axiomatic that the non-economic advantages of friendly relations with Switzerland must not be sacrificed for the comparatively small economic-warfare advantages that were attainable (even in the most favourable circumstances) at this period of the war. But was Swiss stubbornness over the machinery-ammunition demand really due to unwillingness to offend the Germans? Or was it due to the determination of Swiss big business to hold on to its wartime profits? The constant references to the need to maintain employment gave some respectability to the latter position, and the Ministry did not question the fact that Switzerland had to maintain a high level of trade with Germany in order to live. But there were elements in the Ministry and the Board of Economic Warfare in Washington which were already convinced that the habit of acquiescing in Swiss trade with Germany was preventing the full exercise of Allied pressure, with a tendency to exaggerate the extent of small gains. The German agreement to grant transit permits seemed a real success at the time. Mr. Norton telegraphed on 9th September,

I regard the success of the Swiss in thus forcing the Axis to agree to a breach in their counter blockade as a decided success for them in asserting their independence and, by implication, for the Allies, since this step is taken in response to Allied pressure. It therefore seems to be important that the Swiss should be encouraged to realize that the Allies attach great value to this concrete evidence of their resistance to the Axis.

The Germans, however, as we have seen, had been willing to agree to some arrangement on these lines, and on their own terms, since the end of 1941. Certainly the Swiss were having the best of both worlds at the moment. The position in December 1942, after the signing of the compensation agreement, was that the Swiss army was

to secure supplies and that the Swiss Government hoped to do more business with the Allies; Switzerland was still exporting goods with an enemy content of up to 25 per cent., the Allied pressure on Swiss firms had been suspended, and Swiss exports of arms and machinery to the Axis showed no reduction. These advantages more than balanced the Allied refusal to open the quotas for raw materials and fodder.

CHAPTER VIII

TURKEY

(i)

The Anglo-Turkish Alliance

AT the two ends of the Mediterranean Turkey and the Iberian States were in direct touch with the Allied armed forces and could count on some assistance if they were attacked by the Axis powers. In 1941 and 1942 this did not, however, make them any more ready than Sweden or Switzerland to modify the standards of economic neutrality that they had established in 1939 and 1940. They had to reckon that in many ways their proximity to the Allied forward positions was a dreadful embarrassment, for Germany might be tempted to seize them before they could become bases for an Allied counter-attack, and apart from a healthy desire not to provide Europe with any more battlefields they had no confidence in the effectiveness of Allied assistance at this stage of the war. Here too, therefore, as in Sweden and Switzerland, British economic-warfare policy did not strive seriously at this time to do more than hold them to their existing commitments; this was the broader purpose behind what often appears a haggling over rather small issues of supply and exchange. There was also, however, in all three cases, a more constructive approach, for it seemed worthwhile to wean them from dependence on Axis economy by a generous—though conditional—policy of supply. This course would have been impracticable for obvious geographical reasons in the case of Switzerland and Sweden. The Americans accepted it in principle, but could not easily reconcile it with their hankering after quicker results based on the threatened withholding of supplies or an adventurous buying programme.

The British had every reason to be thankful for Turkey's continued independence during the first three years of the war; and although the Turkish Government seemed to be bending a little ominously before the Teutonic storm in the summer of 1941, nothing worse happened than the Turco-German treaty of friendship and non-aggression of 18th June 1941 (which reserved the Turkish position under the Anglo-Turkish alliance), followed by the Clodius agree-

ment of 9th October.¹ By this Germany considerably improved her economic prospects (particularly with regard to chrome), but the earlier success of British economic-warfare policy in countering German economic penetration² suggested that there was no reason to despair of the future. Economically the abiding factor in the Turkish situation still seemed to be the alliance with Great Britain, under which Turkey received rearmament assistance and was not subjected to the formal restrictions of rationing quotas; the new factors were the growing shortage of world supplies, the growing interest of the United States in certain Turkish exports, and the reinforcing of the British purchasing and pre-emptive programme by the American dollar. Up to this point it is probably correct to assume that Turkey felt her natural interest to lie in an Allied victory, and that concessions to the Axis were matters of expediency; but there is every reason to think that as the Soviet forces first held and then took the offensive against Germany a growing apprehension of her traditional enemy began to colour all her political activity. She desired more than ever to keep out of war, and to draw armaments from both the Axis and the Allies.³

In the winter of 1941-2 Allied shortages led to a gradual change in the Ministry's attitude towards Turkish imports. During the early days of the war it had been found necessary to cut down the quantity of goods which Turkey tried to import and to exercise control over the merchants who imported them. By the autumn of 1941 there was no longer any question of preventing Turkey from importing excessively; in many cases she was unable to import sufficient for her needs. This was the result of the Allied steps to conserve supplies for essential war purposes, together with the growing shortage of shipping and Turkey's reluctance to send her own ships outside the Mediterranean. These difficulties were increased by America's entry into the war and the territorial losses in the Far East.

It was still, however, the general policy of the British Government to supply Turkey's essential needs as far as possible. The Clodius agreement provided for deliveries of 100 million liras' worth of various important commodities by each side during the following eighteen months; in addition Turkey promised to supply Germany

¹ Sir Hughe Knatchbull-Hugessen, *Diplomat in Peace and War* (London, 1949), pp. 170-1. Von Papen knew that the British ambassador had been kept fully informed about the discussions. Franz von Papen, *Der Wahrheit eine Gasse* (Munich, 1952), p. 542.

² Cf. E.B., i, figures on p. 610 and chaps. VII and XVIII (iii) generally.

³ Ciano remarked (11th April 1942): 'Enemy Number 1 is Russia, fear Number 2 is Germany. The Turkish ideal is that the last German soldier should fall upon the last Russian corpse. We are still very much under suspicion.' (*The Ciano Diaries*, p. 472.) Papen reported Saracoğlu, the new Turkish Prime Minister, as saying in August 1942, 'As a Turk, he yearned for the destruction of Russia'. *German Foreign Office Documents: German Policy in Turkey (1941-1943)* (U.S.S.R.: Ministry of Foreign Affairs, 1948), nos. 27, 28.

with 90,000 tons of chrome in 1943 and 1944 in return for 18 million liras' worth of war materials. But by the end of the year the high hopes raised in Turkey by the signature of the agreement with Germany were disappearing. As German deliveries of war materials were not forthcoming, British deliveries began to show up very well against the more or less empty German promises. The right policy seemed to be to continue to send all possible supplies to Turkey, partly in order to encourage her to reduce her trade with the Axis, and partly to obtain the necessary funds for pre-emptive purchases. During 1942 pre-emption was increased and the chrome agreement renewed. There were prolonged negotiations with regard to supplies of jute and copper, and a satisfactory application of the British war trade lists. It will be convenient to examine the more important of these developments separately.

(ii)

Chrome

By the middle of 1941 the supply value of Turkish chrome was even greater than its pre-emptive value. American consumption of metallurgical ore, which had been 230,000 tons in 1940, was estimated at 370,000 tons in 1941 and well over 400,000 tons in 1942. This could not all be supplied from available sources and in June 1941 Britain agreed to sell 58,516 tons of the 1941 output to the United States at \$22 per ton. With the loss of the Philippines the American supply position became extremely serious and in February 1942 the United States Government agreed to take the whole 1942 Turkish output, about 233,000 tons, at \$27 per ton and to cooperate in providing shipping and in meeting freight charges.

The Anglo-Turkish-French chrome agreement of January 1940 was due to expire on 8th January 1942; either side had the option under the agreement of renewing for one year and the Ministry was anxious in the autumn of 1941 that no time should be lost in taking advantage of this in order to deny chrome to Germany for at least one more year. The State Department was strongly inclined to withhold supplies from the Turks if chrome were not available. The British Government feared that this action by the Americans, now the chief suppliers of war materials to Turkey, would force the Turks to turn more and more towards Germany for supplies. This was the familiar Anglo-American issue that we see so often at this period. Would the Turks yield to German pressure and argue that as the chrome agreement had been tripartite its terms were no longer binding? It was generally agreed that they would be on weak ground

if they did so, and on 10th July 1941, Sir Hughe Knatchbull-Hugessen, the British ambassador in Ankara, was instructed to announce the British Government's intention to renew the agreement at an early date. On 15th July, on the advice of M. Menemencioğlu, Secretary-General at the Foreign Ministry, the ambassador addressed a formal note to M. Saracoğlu, the Foreign Minister, proposing renewal for a further period of one year as from 8th January 1942. To this there was no reply, although on 23rd August M. Saracoğlu told the ambassador that while he was quite willing to renew the agreement, he wished to reserve a similar quantity of chrome for export to Europe as that reserved for Italy in 1940. There was uneasiness in London at these developments; the 7,000 tons which the Ministry had agreed should go to Italy, then a neutral, in 1940 had not been included in the agreement and could not be regarded as creating a precedent. The ambassador was accordingly told that M. Saracoğlu's arguments were quite untenable, and that he was to press for a satisfactory written reply to his note.

The Turks, however, seemed unwilling to give a definite reply; Dr. Clodius arrived and pressed strongly for chrome. Reports circulated that chrome was to be included in the new Turco-German commercial treaty and the British ambassador was unconvinced by Turkish denials. Mr. Eden interviewed the Turkish ambassador in London on 23rd September and invited his assistance, emphasizing the importance attached to chrome by the British Government. Eventually the Turkish Government agreed (at the end of September) to extend the agreement until 8th January 1943, and this was considered to be the most successful pre-emptive purchase yet made by the Ministry; it was believed that by 1942 the German shortage of chrome would have become sufficiently critical to affect even the manufacture of gunsteel.¹ On the other hand, although Turkish chrome had been denied to Germany in 1942 nothing could be done about the 1943 output: the Turks evidently intended to keep to their promise to supply Germany after 1942 with 90,000 tons a year against deliveries of war materials.

The agreement no doubt represented, in Turkish eyes, an expedient bargain with the Axis at a time when British fortunes were low. The British ambassador, however, succeeded in obtaining a promise from M. Saracoğlu that he would not definitely reserve the 90,000 tons but would leave the Germans to make their own purchases when chrome became available in 1943. Any chrome not taken by the Germans out of the promised 90,000 tons might be bought by

¹ 'On the night when the German commercial talks came to an end, one of the foreign pressmen called on the band [at Karpic's restaurant in Ankara] to play "Chrome, sweet chrome". They did so and followed it up of their own accord with the tune of "I can't give you anything but love, Baby".' (Knatchbull-Hugessen, *op. cit.*, p. 172.)

the British and Americans. It was hoped that the Turks would find it very difficult to meet the German demand from the bare 1943 output, and accordingly it was of the utmost importance that any stocks remaining from 1941 and the whole 1942 output should be removed from Turkey before 8th January 1943. Lack of transport, however, proved a severe handicap throughout the whole of the chrome negotiations. Two of the largest chrome-producing centres were in northern and south-western Anatolia, areas from which it was impossible for British ships to lift the ore, and for some time the Turkish Government was unwilling to allow Turkish ships to carry chrome through fear of possible enemy action. The only two ports open to British shipping were Mersin and Iskanderun, both in southern Turkey, and transport by rail and sea to these ports was very limited. The problem was made even more urgent by the ever-present fear that Germany might invade Turkey in the spring of 1942 and so obtain the considerable stocks of chrome stored in the Sea of Marmara area. Papen was doing his best at this time to persuade Menemencioğlu that Germany must have not only an economic but also a political equivalent for her delivery of war material to Turkey.¹

The United States were anxious to help in any way possible, although in 1941 American ships were still prevented from lifting chrome from Turkey by the neutrality legislation. The Chrome Company's representative in Turkey and the British commercial counsellor were untiring in their efforts to obtain adequate transport but it was not until mid-December 1941, after continuous pressure by the British ambassador, that the Turkish Government really showed any sign of adopting a more helpful attitude. The Minister of Communications then promised to lift all the chrome at Fethiye and to make more ships available. In spite of this, however, and the fact that the Turks definitely undertook to deliver the 1942 output at accessible ports and 'promised to do even the impossible to ensure us maximum deliveries' it seemed by June 1942 more than probable that the rate of movement would not be sufficient to move the large stocks which were accumulating at the mines and inaccessible ports before 1943. Although the Turks seemed, by this stage, willing enough to help, lack of ships and of repair materials undoubtedly hampered their efforts. The high-grade 48 per cent. ore was naturally given priority, but this meant that considerable stocks of low-grade ore, which had been bought and paid for, would still be left in Turkey at the end of the year, although the Ministry hoped to be able to continue to remove it after the Germans had begun their own purchases. In all the circumstances the shipping of over 120,000 tons during 1942 was not an unsatisfactory achievement.

¹ Papen to G.F.O., 16th February 1942. *German Foreign Office Documents . . .*, *op. cit.*, no. 18.

There was also the question of the price to be paid in 1942. The British were prepared to offer a considerable incentive in the way of a premium for delivery at an accessible port. The Germans were paying 150s. per ton. On 22nd November 1941 the Turkish Secretary-General promised that all existing stocks on 31st December 1941 and all chrome produced between 1st January 1942 and 8th January 1943, estimated at 180,000–200,000 tons, would be placed at the disposal of the British at a basic price of 140s. per ton, with an upwards and downwards scale of 4s. for each unit above, and 3s. for each unit below 48 per cent. The Turks would, moreover, deliver the ore to accessible ports, so that there was no necessity for the inclusion of the suggested penalties for non-delivery. This arrangement, if it could be carried out, would mean that no chrome would be available for the Germans at the beginning of 1943, so that the proposals were generally acceptable to the Ministry; an agreement on these lines was signed on 23rd December 1941.¹

For the rest, however, the chrome negotiations were disappointing. There were lengthy and for the most part unsatisfactory discussions during the greater part of 1942 about the 1943 output and the possibility of obtaining a purchase contract for low-grade chrome ore at a reduced price. Until 1942 no low-grade ore had been offered. The Ministry had no wish to buy it at the very high price prevailing, but by May 1942 it had come to the conclusion that it must be prepared to do so in order to prevent supplies falling into German hands. It was also becoming obvious that an attempt must be made to secure some form of agreement covering purchases which the British Government still hoped to make in 1943 in spite of German competition. The Turks in October 1941 had assured the British ambassador that commitments to Germany would not prejudice the satisfaction of Allied chrome requirements, but it seemed that if the Germans secured in 1943 the full amount promised under the Clodius agreement there would be little left for the Allies. On 8th June the Ministry suggested to the ambassador that he should link the proposals for a new agreement with the purchase of low-grade ore which the Turks were very anxious to sell and Knatchbull-Hugessen asked for a similar quantity (90,000 tons) to that promised to Germany. The Turkish Secretary-General appeared quite willing to discuss a purchase contract for 1943 no less favourable than that accorded to Germany, and M. Saracoğlu was also said to have definitely stated that the British Government should receive 'just as much chrome during 1943 as the Germans'. But the Secretary-General would not

¹ On 17th March 1942 the German embassy in Ankara urged Ribbentrop to accelerate the sending of guns and ammunition to Turkey in order to facilitate the operation of the chrome agreement. *German Foreign Office Documents . . . , op. cit.*, Wiehl to Ribbentrop, 17th March 1942, no. 21.

promise the Allies all Turkish chrome other than that to be delivered to Germany, since the 'previous undertaking had placed him in considerable difficulties when he wished to export small quantities to Central European powers in order to obtain chemicals and other commodities urgently required by the Turkish Government'.

There was general agreement on all sides that the 1943 production was not likely to be more than 100,000 tons, so that the balance of the requisite 180,000 tons would presumably have to come from stocks. By July 1942 the Germans had agreed to a price of 270s. a ton, which meant that even if the Turks agreed to negotiate a purchase contract there was no doubt that they would demand a considerable advance on the current price of 140s. It was clear that the Turks were setting the stage for some hard competitive bargaining by both sides, and the discussions dragged on. There seemed no doubt the Turks were delaying agreement mainly in order to obtain war materials from both the Allies and the Germans. No agreement was reached until the very end of the year 1942.¹

(iii)

Pre-emption

Chrome ore was the most important, but by no means the only, objective of the British pre-emptive programme in Turkey. In general, pre-emption was proving itself an increasingly important weapon of economic-warfare in Turkey in this period. A good beginning had been made in 1940 and 1941,² and in the year 1941-2 goods to the value of nearly £6,700,000 were bought, £4,500,000 of this total being spent on pre-emptive purchases. In 1942 for the first time a planned pre-emptive programme was put into operation, with the result that Turkish exports to Germany decreased perceptibly; exports of mohair and skins, for example, both important German war needs, were 30 per cent. and 40 per cent. less respectively. Early in 1942 the United States Government decided to enter the preclusive-buying campaign in Turkey on a short-term basis while considering longer-term possibilities, but the British position, based on the Anglo-Turkish alliance and favourable financial arrangements, made it convenient for the British to continue to bear the main responsibility in this area. The U.K.C.C. was not incorporated in Turkey (as it was in Spain and Portugal), but was unofficially recognized by the Turkish Government. All its buying operations were accompanied by a formal request to the Turkish Government for an alloca-

¹ See p. 529 below.

² E.B., i, 609-10.

tion of the commodity in question, and this carried with it the promise of licence to export. Because of its unofficial status and interest in maintaining exports to the United Kingdom the corporation was careful to refrain from tactics objectionable to the Turkish authorities, and it felt considerable uneasiness when the Americans in due course showed a preference for less orthodox methods. The British had considerable balances of Turkish currency, together with a special exchange rate, designed to take care of the over-valuation of the Turkish pound, for settlement within a Special Account. Instead of the official rate of £T5.20 to the pound sterling, a rate of £T7.28 prevailed. The agreement also provided for a Commodities Account at the less advantageous official rate.¹ The Treasury had feared at first that Turkish purchases might lead to a serious drain on British gold reserves, but so successful had the British been in supplying Turkey as well as buying from her that no drain appeared. The Turkish position was largely influenced by the creation of a great Allied supply base for the Middle East in Egypt. The British authorities built up stocks of nearly a million tons of wheat flour and other cereals, over 100,000 tons of sugar, and nearly a million pounds of tea. Later there was added to these stocks supplies of rubber, tin, steel, jute bags, cotton, sulphur, and tinplate. The Near and Middle East in general were so-called scarcity areas; the British were taking the exportable surpluses for supply and political reasons, and this fact, together with the shipping shortage, made American preclusive purchasing unnecessary.²

In July 1941 the five most important commodities on which the Ministry wished to concentrate its limited purchasing power in Turkey were (in addition to chrome) wool, olive oil, vallonina, mohair, and borax. The estimated value of Turkey's exportable surplus of these goods was just over £5,000,000. The amount which the British could buy was limited by the amount of goods which the United Kingdom could send to Turkey, since the Turkish Government had now definitely stated that it preferred goods to gold as payment. During the three months ending on 31st May 1941, civil supplies to the value of £1,365,000 arrived in Turkey, implying a rate of over £5,000,000 a year. By this time, however, the United States was becoming the main supplier of goods to Turkey and the Ministry therefore assumed a total of £4,000,000 a year for exports from the United Kingdom. Of this £1,000,000 had to be reserved for dried fruits under the 1940 chrome agreement, and for supply purposes. After careful consideration, therefore, a tentative programme was drawn up in August, including 4,000 tons wool, 5,000 tons olive oil, 20,000 tons vallonina, 3,000 tons mohair, and 7,200 tons borax, at a

¹ Cf. E.B., i, 603.

² Cf. Lord Swinton, *I Remember*, pp. 169-70.

total estimated cost of £2,785,000. By September the continued resistance of the Russians had made necessary a review of the German textile position and it became evident that Turkey was the only remaining neutral source for the supply of cotton, which therefore became of high pre-emptive importance. The Turks prohibited the export of wool, which left some £800,000 available for the purchase of cotton. Then the Turkish authorities decided to reserve their supplies for home consumption and since the Treasury had been very much averse to the purchase at the inflated price prevailing the proposal was dropped.

By November 1941 the U.K.C.C. found that since supplies to Turkey had continued at a satisfactory level they would have a further £1,000,000 available and it was suggested that purchases should be directed where possible to upsetting the Clodius agreement, and that wool, mohair, and olive oil were the most important commodities. The Turkish Minister of Commerce would only agree to grant export licences for vallonina and valex up to an amount which would not interfere with the Clodius agreement; one possibility of overcoming this difficulty was to buy in the open market without being able to obtain export licences, but the Ministry was loath to mar the good relations which Lord Carlisle had established on behalf of the U.K.C.C. with the Turkish Minister. Eventually a supplementary programme for 14,000 tons vallonina, 2,500 tons valex, 2,000 tons sulphur olive oil for conversion into soap, 1 million sheep and lamb skins, 200 tons of gum tragacanth, and if possible 4,000 tons of wool to a total value of £5,070,000 was agreed. This was to include £500,000 for supplies to the Middle East forces. It was decided not to make a direct attempt to sabotage the Clodius agreement but to attempt to achieve the desired result by indirect purchases. Since export of wool from Turkey was prohibited and the British were making determined efforts to restrict the transit trade, a large increase in German demands for mohair could be expected. By March 1942 the Ministry had decided to make further large-scale purchases of mohair as part of the campaign to deny warm clothing to the enemy; the Treasury authorized an additional expenditure of £2,000,000.

In the meantime discussions began (early in 1942) on the possibilities of a joint United Kingdom/United States pre-emptive programme in Turkey. The United States was showing increasing interest in Turkish commodities, and despite some initial uneasiness in London it was agreed that the advantages of United States assistance would outweigh the possible disadvantages. The Americans were accordingly invited to discuss the whole question. They took the view that as the British had a comprehensive programme for 1942, American purchases should be confined to commodities outside that

programme but nevertheless important, such as copper, cotton, silk, oilseeds, etc.; they also decided that they would send only a small staff of the U.S.C.C. to Turkey, that their purchases should be made by the U.K.C.C., and that their representatives should use the British corporation's facilities for storage, inspection, and other physical details. Until the long-term 1942-3 programme was ready therefore the U.K.C.C. arranged to make interim purchases on behalf of the United States Government, using the balance that had accrued from United Kingdom sales to Turkey. Purchases of opium and antimony were already being made in this way in May 1942.

After further discussion it was decided in June that the joint programme should be divided by commodities rather than on a 50-50 price basis and that London should be the centre for all discussions on the programme. The United States Commercial Company was to work in closest cooperation with the U.K.C.C. and a tentative programme for 1942-3 was drawn up and submitted to the Americans in August. This showed commodities in order of importance, with target figures for each, and estimated costs. The British agreed to pay for as much of the programme as their purchasing power would permit, since the United States was bearing the major part of pre-emptive costs in Portugal. The programme, with target figures which were, however, to be regarded only as rough estimates, was as follows.

	<i>tons</i>	<i>£</i>
Copper	8,000	1,000,000
Antimony	900	36,000
Wool	3,000	900,000
Skins	4,600	2,000,000
Wool rags	2,500	250,000
Mohair	5,000	2,370,000
Vallonia	20,000	300,000
Valex	5,000	275,000
Silk, silk waste	150	500,000
Cotton waste, rags and clippings	1,800	200,000
Hemp	4,000	800,000
Flax	2,000	360,000
Olive oil	5,000	900,000

The Americans accepted these proposals on 6th September.

Before this joint programme was presented to the Turkish Government the Ministry had made suggestions for forestalling a renewal of the Clodius agreement, and the British embassy in Ankara had suggested a comprehensive programme of purchases to a value of £20,000,000, including commodities of no pre-emptive or other immediate value. Payment was to be partly in the form of post-war credits. However, it was felt in London that so substantial a programme of 'political' purchases was undesirable and the plan was eventually dropped, as was a further proposal from the embassy for some form of comprehensive trade agreement. It was then left to the British ambassador in Ankara to present the joint programme to

the Turkish Minister of Commerce and request the necessary export licences. The Turkish Government was also to be asked, in recognition of the Anglo-Turkish alliance, the armament and other credits, and the United States lease-lend facilities, to undertake to supply the Allies with such quantities as they might wish to buy of certain commodities and not make prior commitments to the enemy. It was also suggested that he should seek some provisions against unlimited price raising by the Turks.

The result of the first approach on these lines was most disappointing, and the ambassador accordingly lifted the matter to a higher level; he put to the Foreign Minister all the political arguments for bringing British commercial relations with Turkey into line with the political relationship, and the Foreign Minister seemed on the whole to be sympathetic. The allocation of export licences for a number of commodities was certainly increased. But there was nothing to suggest that the Turks were as yet prepared to risk commitments to the British Government which would seriously interfere with their deliveries to the Axis.

In spite of this absence of any substantial turn of Turkish economic policy in favour of the Allies the U.K.C.C. was anxious not to impair what it regarded as an excellent working relationship with the Turkish Government, and accordingly as a general rule all joint-programme purchases were made with the consent of the Turkish Minister of Commerce. There were obvious disadvantages in this close dependence on Turkish officialdom, and it seemed to the United States embassy useful to try other tactics. In addition to the joint programme the Americans drew up therefore a supplementary programme of \$21m., under which they bought through Turkish agents without a prior allocation by the Ministry of Commerce. This gave the British embassy some concern; the United States ambassador was 'inclined to take the bit between his teeth'; perhaps, too, as the British were responsible for financing United States purchases, the U.K.C.C.'s unofficial status would be affected, if the Turks chose to become awkward. In any case it was impossible to export without official sanction. But the Americans thought it better to remove certain stocks from the market and risk the consequences. There was no doubt that under the British practice informants in Turkish Government circles made contemplated Allied purchases known to Axis agents, and the United States practice was certainly speedier and more secret.

As the U.S.C.C. had practically no staff and no commodity experts the method usually followed was to arrange for a Turkish agent to enter the market and buy the goods that were wanted. He had to be allowed to use his own judgment with regard to quantities and prices. He was usually paid on a commission basis. Specific

contracts were impossible. Not unnaturally the Americans became the victims of much sharp practice, including many fraudulent claims for commission. At one time a Turkish company in Istanbul pledged part of the U.S.C.C.'s oilseed stock for loans for its own account. But it was felt that the abuses worked both ways. Higher Allied bids induced the Turks to break some of their contracts with Axis buyers, and Turkish agents of the enemy were open to every variety of bribery. This supplementary American buying was concentrated on textile fibres and oils: as the Axis was experiencing a serious shortage of textile fibres, the U.S.C.C. sought to buy up all Turkish products which might contribute to the manufacture of textiles, and it thought that it could at least aggravate the German oil shortage by the purchases of oilseeds. The British experts doubted the possibility of stopping oilseeds, except in the case of linseed. Among the American successes was that of driving 450 tons of linseed off the market when a German commission arrived to buy them in the autumn of 1942; the price was forced above that authorized for the German purchase. Another plan which was put forward at this time but rejected on British advice as impracticable was that of chartering Turkish caiques which were supplying the Axis on the Black Sea run to Bulgarian ports.

We shall follow the progress of the various purchasing programmes in a later chapter. At the end of 1942 the prospects were not very rosy: it looked as if the Axis would greatly improve its position in Turkey in the coming year. We shall close this chapter with two examples of the complications which accompanied the attempt to conduct economic-warfare operations in Turkey on a basis of political goodwill, without the tight agreements insisted on by the Germans or the forcible rationing procedure imposed by the Ministry on the other European neutrals.

(iv)

Listing: the Gentleman's Agreement

The special concessions made to Turkey in the field of black-listing were at first looked on favourably by the Ministry, but it began to have doubts about the attractiveness of the arrangement in the last months of 1942. It will be remembered that attempts had been made by the Ministry early in 1941 to persuade the Turkish Government to restrict the export to enemy countries of jute goods in the form of packing materials.¹ It would undoubtedly embarrass Britain's enemies to deprive their export and import trade of material

¹ E.B., i, 607-9.

to pack their goods, and it seemed worth while to try to prevent such packing material as jute bags, tinplate, and hessian from reaching Germany through Turkey from the sterling area. There was a large Turkish re-export trade in jute bags from India to Germany. We have seen that the Ministry was also interested in the restriction of jute goods to Japan at this period.¹ In Turkey the whole question had eventually become linked with that of the blacklisting of Turkish firms. Negotiations ran on during the summer of 1941, and some concessions were made by both sides; however, no definite reply was received to the Ministry's proposals until August 1941 and final agreement was not reached until October. During the whole of this period the ban on the import of jute goods into Turkey from the sterling area remained in force.

On 25th August came the Turkish Government's proposals in the form of two letters from the economic department of the Turkish Ministry of Foreign Affairs; these were stated to represent the limits to which Turkey, as a sovereign state, could go towards meeting the British requests. With regard to jute, the Turkish Government agreed that exporters of Turkish native produce should either demand that the importing country should provide the necessary packing material, or, if this were not available, that the exporters should stipulate for the return of the sacks. Exporters who did not take effective measures to secure the return of the sacks after a reasonable lapse of time would be refused further export permits. The British embassy would be supplied with figures of the despatch and return of all such sacks. The second letter concerned the blacklisting of Turkish firms. The Turkish Government admitted the British right to list all enemy firms and firms closely associated with the enemy, but asked to be consulted before any firm was listed. It maintained that purely Turkish firms should not be listed since all export from and import into Turkey was either directly or indirectly under State control; commercial relations with Turkey were strictly controlled in general by a compensation system or by commercial agreements. Export and import of goods outside these two systems would constitute contraband and any firm indulging in such activities would run the risk of prosecution. This control of commercial exchanges aimed at satisfying the real and urgent needs of the country as regards imported products and this assurance seemed sufficient guarantee that only goods of which Turkey had a real and urgent need would be imported against the export of Turkish products. The letter went on to argue that by the nature of this 'gentleman's agreement' the British Government could be assured of Turkish goodwill in the application of the provisions and went on to draw attention to the amount of illwill being created in Turkish commercial

¹ See p. 87 above.

and financial circles by the restriction of jute imports and by the war trade lists.

The ambassador recommended acceptance of this undertaking. The Ministry found the proposed guarantee sufficient, providing that firms evading or attempting to evade blockade regulations were included in the categories of firms to be listed. It could not undertake to consult the Turkish Government before listing, but offered to inform it, so that, if necessary, representations could be made. Facilities would not necessarily be granted to all firms not on the lists. The ambassador suggested that the Turkish wording, in which the government asked to be consulted before a firm was listed, was in reality only of a 'face-saving nature' and might be retained, and on 9th October the Ministry agreed to 'advise the Government of the Republic of its intention to list any firm in Turkey in order to give an opportunity for consultation so far as time permits'. The letters, suitably amended in this way, were finally accepted on 14th October. The effect of this agreement was that persons and firms in Turkey were no longer listed merely on account of their trade with enemy territory, provided that their exports were of Turkish indigenous produce and that their imports were for Turkish consumption, and made in order to satisfy the real and urgent requirements of the country. Persons and firms, however, who were controlled from enemy territory, of close enemy association, or guilty of evasion or attempted evasion of blockade regulations were still listed.¹ This applied to the Statutory List only, since this was the only list of which the Turkish Government was officially aware, but the Black List Committee decided that similar restrictions should be made in the application of the Ministry's Black List. The obligation to notify the Turkish Government of its intention to list a firm did not in any way restrict the British Government's freedom to do so, within the limits of the agreement.

The proposals with regard to jute were accepted at the same time and in general were considered satisfactory. In some ways they were better than had been expected, since it was considered politically undesirable to weaken Turkey economically by upsetting her export trade and in any case impossible to buy the whole of her export surplus. In return the Ministry agreed to facilitate the import into Turkey of a reasonable amount of jute goods, and the unofficial quota was fixed at 8,000 tons a year. The ban on exports was immediately lifted and 700 tons licensed from Egypt, with 2,500 from India and a further 2,000 tons to follow before 31st March 1942.

The Turkish Minister of Commerce then sent a circular to all chambers of commerce and other trade organizations saying that in

¹ The same broad principles were followed in the case of firms in other neutral countries, i.e. trade with the enemy did not automatically lead to listing.

future all packing material must be furnished by the purchasers and imported into Turkey. If this should prove impossible the export would be allowed only if the packing material used was returned to Turkey and the exporter required to make a deposit with the customs as a guarantee of his good faith. In practice all exporters without exception chose to provide the guarantee rather than insist on the provision of packing material by the purchaser. The Minister of Commerce considered that for him to allow this as a general rule would be a contravention of the Turkish Government's obligations under the 'gentleman's agreement' and he therefore decided in January 1942 to cancel the original instructions and insist that all continental European countries (except Russia), Japan, and all territories occupied by these powers should provide packing and wrapping for all purchases of Turkish goods. This new regulation was considered eminently satisfactory in London since it meant that no jute or tinplate of Allied origin would be exported to enemy territories from Turkey.

However, by October 1942 the suspicion was growing that Turkey was preparing to violate the gentleman's agreement by allowing the sale of her products against free exchange. Axis difficulties in supplying and transporting Turkey's needs helped to reduce Turkish exports and if these difficulties were removed and the enemy were allowed to pay for their purchases in free exchange instead of in goods, Turkish exports to the Axis might well increase considerably. The ambassador approached the Minister of Commerce, but on 19th November he had to tell the Ministry that the Turkish Government would not admit that the new regulations were a contravention of the agreement, since no export against free exchange was permitted unless a corresponding import covered by that free exchange was guaranteed. In other words, free exchange was utilized merely to facilitate the import of Turkey's urgent requirements against export of her commodities. This was considered definitely unsatisfactory in London, but no further reply was received before the end of the year.

(v)

Copper

Even more unsatisfactory was the strange problem, unsolved in this period, of the supply of copper manufactures to Turkey. Turkey was producing large quantities of blister copper, much of which was going to Germany and Hungary in return for fabricated products. The rates of exchange varied with the product, but a ratio of three tons of fabricated products from Germany in exchange for five tons

of Turkish blister was probably a representative one in 1941. The amount of copper remaining in Europe represented the profit or conversion charge. The United Kingdom on the other hand was sending electrolytic copper to Turkey but receiving no blister copper in return. This was clearly undesirable from a blockade point of view, but under the armaments agreement the British Government had undertaken to supply Turkey with essential equipment for her war factories and defence programme, in accordance with the accepted policy of denying her nothing that would strengthen her resistance to German infiltration and possible aggression. The Foreign Office would therefore not agree to any condition—such as the return of an equivalent amount of blister copper or the prohibition of its export to Germany—being attached to sales from the United Kingdom. These supplies of copper for military purposes were paid for out of the armaments credit and it was doubtful whether the Turks could even be asked to pay in kind. The Ministry continued to urge that some attempt should be made to persuade the Turks to restrict their exports to Germany, but without any marked success. The position was made even more difficult by the fact that the Turks were asking an exorbitant price for their raw copper—£125 per ton, as compared with the market price of £62 per ton—which the Germans were apparently willing to pay. At this time copper was not required on supply grounds and the British departments concerned were most reluctant to pay this excessive price and so use up their limited purchasing power in Turkey, thereby losing other commodities, possibly of higher pre-emptive value.

Copper production in Turkey was estimated at 8–10,000 tons a year. Under the Clodius agreement she undertook to supply Germany with 12,000 tons during the eighteen months ending in March 1943, in return for copper goods. This promised to leave very little surplus and it seemed that any pre-emptive policy on the part of the United Kingdom would have to be a long-term one, with the hope of obtaining larger supplies after March 1943, possibly with the help of the United States. Various suggestions were made for obtaining what surplus was available but for reasons already given none was adopted. The British Government was at this stage of the war in a position where it was possible only 'to bribe and not to bully' and the most that could be done was to send a telegram to Ankara instructing the ambassador to approach the Turkish Government with the request that since the United Kingdom was supplying 300 tons of electrolytic copper, with a further 500 tons in 1942, the Turks should in return offer 500 tons of their own raw copper at world prices. This telegram was sent on 28th December 1941, but there was little hope in the Ministry that the Turks would consider the proposal. Meanwhile, in spite of very strong feeling against such a course in the

Ministry, electrolytic copper and copper manufactures continued to go to Turkey and the Turks continued their sales of copper to the enemy, while increasing their requests for fabricated goods and copper sulphate from Great Britain.

By March 1942 the Ministry was more than ever anxious to restrict these sales. There was now a serious shortage of copper both in German Europe and amongst the Allies, so that any purchases in Turkey would serve the dual purposes of denying an important commodity to the enemy and helping the Allies' war production.¹ Straightforward pre-emption seemed impossible in view of Turkey's agreement with Germany, and it was politically impossible to hold up supplies, therefore the only course open seemed to be an 'appeal' to the Turks. The Foreign Office persisted in its view that any attempt at bargaining was out of the question, but it agreed to a further telegram to Ankara on 15th May pointing out that it was altogether unreasonable for Britain to sell copper to Turkey at £60 per ton and to buy raw copper in return at £160 per ton or be refused it altogether! In 1941 500 tons of copper insulated wire and 900 tons of other copper goods were sent to Turkey, apart from electrolytic copper for armaments, whereas deliveries from the Axis had been negligible in spite of their promises. In 1942 it was expected that over 2,000 tons of copper manufactures would be sent to Turkey in spite of supply difficulties and the British ambassador was again asked to approach the Turks for an allocation of blister copper. The only result was once again a suggestion from the ambassador that Britain and the United States should combine to force the Turks to agree by refusing supplies.

At the beginning of June 1942 the Ministry estimated that the enemy's supply of copper fell short of requirements by nearly 100,000 tons; the Germans were reported to be melting down church bells. Copper was also in short supply now in the United States and the Board of Economic Warfare was prepared if necessary to give it precedence over chrome in its shipping programme. For these reasons it was imperative that some means should be found to persuade the Turks to sell to the Allies. The United States had succeeded in buying 2,000 tons, after strenuous efforts on the part of the United States ambassador in Ankara, and was trying to obtain more in the face of many difficulties. Information was received that before supplying Turkey with copper manufactures the Germans were insist-

¹ At the 'Fuehrer Conference' on 14th March 1942 Raeder told Hitler that the navy-construction programme was being hampered by raw material shortages, particularly copper. In the case of artillery any further cuts, particularly in copper, would prove disastrous. 16th April 1942, Annex 4: 'The Naval Staff considers it possible to obtain the additional amount of copper required for the special purpose of increasing submarine construction by means of buying on the black market in unoccupied France, collecting scrap metal, salvaging copper from the Maginot Line, melting church bells, running the blockade, etc.' *Fuehrer Conferences*, vol. ii, p. 64.

ing on the supply of the necessary blister copper in addition to the 12,000 tons promised under the Clodius agreement, which meant that there would be little left for the Allies. Discussions went on all through the summer without result until on 6th October 1942 the Turks suddenly offered 500 tons of blister copper in return for 300 tons electrolytic; no mention was made of price. This appeared to be a very belated answer to the telegram sent in December 1941 suggesting that some such exchange might be possible, and though only small the offer was at any rate a step in the right direction.

Meanwhile the joint Anglo-American pre-emptive programme for 1942-3 which was just being put into operation provided for the purchase of 8,000 tons of copper, which was to be the responsibility of the United States. There was some considerable discussion on the price the Turks would expect for the 500 tons, but finally the Americans agreed to repurchase the whole amount at whatever price should be agreed upon between the British and the Turks.

CHAPTER IX
GREECE AND THE BLOCKADE:
THE PROBLEM OF RELIEF

(i)

Relief: the early moves

TURKEY had a further, and very different, connexion with the blockade, for she was able to play a useful part in sending supplies to Greece—the one area in which the case for relief was overwhelmingly strong. The attempt to save the civilian victims of Axis occupation from hunger and distress might well, if carried out indiscriminately, have become the Achilles heel of the blockade. The British Government had sound legal and logical reasons for maintaining that it was the duty of the conqueror to feed and clothe the conquered. To send in food and clothing on a sufficient scale to relieve the Axis Governments of this obligation would undoubtedly prolong the war; even if they agreed to the most rigorous supervision by neutral observers they would greatly ease the transport and manpower difficulties involved in food production and distribution, and if there were no such supervision they might, in addition, benefit further by diverting the imported supplies to their own use. By maintaining the health of Axis-occupied territory the Allies would be providing ample resources of extra manpower for Axis economy, in addition to diverting shipping and supplies from Allied users. The Axis Governments would also be spared the danger of pestilence and revolution in the occupied areas; this would reduce the need for occupation forces, and one deterrent against future conquest. Small contributions to feed special areas or classes, which would be of no substantial help to the Axis, would equally be of no substantial help to the occupied peoples, and would raise false hopes and ever-mounting demands. Accordingly, in his important statement in the House of Commons on 20th August 1940, Mr. Churchill had announced his Government's intention to maintain a strict blockade both of Germany and of German dominated countries.¹ 'Let Hitler bear his responsibilities to the full, and let the people of Europe who

¹ E.B., i, 551, and Appendix II.

groan beneath his yoke aid in every way the coming of the day when that yoke will be broken.' But reason and policy could not entirely still the voice of criticism. The Allied refusal to feed the occupied territories was based on the assumption that Germany and Axis-dominated Europe, taken as a whole, were or could be self-supporting; some did not accept this view and some did not accept its implications.

And so the British authorities had to consider a stream of suggestions, reproaches, comments, and criticisms which were politely assumed to be founded, in the words of the Prime Minister on 20th August, 'on the highest motives', and which revealed a continued public uneasiness. In England it gave some outlet for pacifist sentiment; in the United States it sometimes had isolationist backing, and a tendency to equate German and British responsibility. In neither country did the agitation attain major political proportions. It was never the subject of any serious press campaign. In Great Britain the Government's own initiative was sufficient to meet the better-informed domestic critics, although the representatives of the Allied Governments in London kept up their pressure. In the United States the campaign had an influential and experienced leader in Mr. Hoover,¹ but here too the general trend of opinion seems to have been favourable to President Roosevelt's views, which were substantially the same as those of Mr. Churchill. The British Government nevertheless felt that certain relaxations of the blockade were necessary from time to time, and these were the result of various pressures, some domestic and some external; of the latter that of the State Department was not strongly exerted in favour of extended relief measures until the spring of 1944, at a very inopportune moment in view of the forthcoming invasion of France.

The main preoccupation of the Ministry of Economic Warfare in this field during 1941 was with surpluses, and this was not, strictly speaking, a matter of blockade. The Prime Minister had promised on 20th August 1940 that the British Government would arrange for the speedy provisioning of any area which regained its freedom. The announcement was intended to serve a double purpose—to give an assurance that the Government was fully alive to its legitimate responsibilities, and to prepare for the building up of reserves which would help to dispose of the vast surpluses which the blockade was creating in overseas neutral countries. The Ministry continued to discuss the problem with the Allied Governments during 1941, after which, in April 1942, it was transferred, under Sir Frederick

¹ 'The President expressed concern over Herbert Hoover's persistence in working up public sentiment to feed the people in the occupied countries of Europe. Hoover pretends to believe that supplies could be restricted to those who need them. However, few agree with him' (December 1940). *The Secret Diaries of Harold R. Ickes* (London, 1955), iii, 385.

Leith-Ross's direction, to the Board of Trade.¹ With the loss of the Far East and the entry of the United States into the war the surpluses were either lost or consumed by the Allies in their own war effort. Later the British Government was to find that it could not act on its assumption that the relief of liberated areas would take place only after hostilities; a rapid collapse of the enemy did not take place as in 1918, and during the Italian campaign in the winter of 1943-4 extensive and prolonged relief had to be provided, partly by the military and partly by the civil authorities.

Otherwise the year 1941 saw no substantial departure from the policy of refusing relaxations of the blockade in the name of relief. On 4th April 1941 the Ministry had, however, informed the United States embassy in London that the British Government was prepared to agree to relief *inside* the blockade (that is, to the passage of supplies from neutral countries within the blockade area to occupied countries), and to the release of dollars for this purpose. In order that the enemy should not benefit, the Ministry made two conditions. The first was that purchases should not be made in enemy-occupied or enemy-controlled territory, and that dollar payments should be made direct to the neutral supplier. The second was that the goods should be the local produce of the country in which they were purchased and should not be goods of a kind which that country was importing through the blockade as a part of its requirements from overseas.² This degree of elasticity enabled some supplies to be sent from Sweden to Norway, and later from Turkey and Switzerland to Greece, and from Portugal, Spain, and Sweden to Belgium. In some cases the purchases could be made only with dollar funds, collected by relief missions in the United States, and although the State Department did not at first object to this policy it was never happy about it. It maintained the view that there should be no relaxation of the blockade except in the case of Unoccupied France, to which some limited shipments of wheat were being sent.³ The Ministry, while it felt some exasperation over the State Department's 'blind spot' where France was concerned, welcomed its firm attitude otherwise, and it indeed became clear during the second half of 1941 that the British Government was rather more willing than the United States Government to take the risks of allowing the movement of supplies within the blockade. One reason for this was that Mr. Cordell Hull believed, more strongly perhaps than Mr. Eden, that

¹ The main commodities discussed by the Allies were wheat, sisal, meat, and butter (Australia and New Zealand), sugar, coffee, lead, bananas, jute, rice (Burma), copra, cocoa (Gold Coast), and cotton (Egypt, Uganda).

² The text of this statement is given in E.B., i, 584.

³ *Ibid.*, i, 578-82; W. L. Langer, *Our Vichy Gamble*, does not appear to mention the permission given by the British Government on 22nd March 1941 for two ships with wheat to go from the United States to Unoccupied France.

any relaxation in favour of one area would be followed by further demands which would be increasingly difficult to meet; another was that the United States Treasury found difficulty from the start in making dollars available for purchases within the blockade.

In May 1941, in a memorandum drawn up for a secret session, the Ministry emphasized the permission to purchase within the blockade, and its willingness to consider any concrete scheme, provided it could be proved not to help the enemy. At the end of July 1941 Mr. Eden spoke to his colleagues of the pressure that was being brought to bear by certain Allied Governments, helped by the precedent of cargoes freely landed at Marseilles; he suggested that the Government should indicate a readiness for a milk scheme for Belgium, supervised by the American Red Cross, though he thought it unlikely that the Germans would agree. But Mr. Dalton argued that the leak in the blockade through Unoccupied France was no argument for making a hole in the blockade elsewhere, and the Prime Minister said firmly that it would be wrong to make any concessions at this time. The Foreign Secretary was instructed to inform the Allied Governments that it adhered to the principle of German responsibility; and that, in any case, the moment was surely unpropitious with the harvest about to be gathered in. On 1st September the matter was again discussed, this time in connexion with a message which Lord Halifax had received from President Roosevelt, advocating the admission through the blockade of further supplies of milk for children in Unoccupied France. This raised the inevitable problem of making concessions for Unoccupied France and not for Belgium and Greece, where conditions were worse, and it was resolved not to concede more than an occasional ship to Unoccupied France. In the Relief Section of the Ministry there was also some uneasiness about the official policy on relief, and some discussion in August and September as to the advisability of an initiative by the British Government, perhaps in the form of a scheme to supply milk and vitamins to children and mothers in some occupied areas. The arguments against relief were still considered to be generally valid: Europe was potentially self-sufficient in foodstuffs; the Germans would surely be unwilling, in their own interests, to let the occupied countries starve; relief shipments would release equivalent quantities of food from the occupied countries to Germany; tonnage could not be spared. The Government's decision made this discussion merely academic for the moment, but the case of Greece could now be quoted against the second of these arguments (Belgium being said to receive plenty of food for the industrial workers). In general also it was recognized that while the first contention was quantitatively valid, there were certain kinds of food needed by children and pregnant mothers which were deficient.

The State Department's firm line meant an open breach with Mr. Hoover, whose campaign had continued throughout the summer of 1941. We have seen that the Ministry had rejected in March 1941 a recent plan which Mr. Hoover had put forward for bread-and-soup distribution in Belgium.¹ Although he had claimed that the scheme had received adequate German guarantees the Ministry had argued that these were insufficient, although it had not at this stage received details of the German answer. On 19th June 1941 Mr. Hull made his own position clear to Senator W. F. George, chairman of the Foreign Relations Committee, who had sent him a copy of a resolution calling on the United States Government to organize a relief plan for the occupied countries of Europe on the lines of the German offer. Mr. Hull said that his Government had a deeply sympathetic attitude to all phases of distress 'in every part of the world, from China to Finland', and was continually studying the facts, but 'the responsibility and manifest duty to supply relief rests with the occupying authority', and while his department had no knowledge of the terms under which the Germans had agreed to the proposal described in the resolution, it was extremely difficult to know why the German Government had taken no steps to replace the stocks of food removed from the occupied countries.² This letter was made public on 26th September 1941, as part of a move finally to kill the Senate resolution, and the Ministry was told in a telegram from Washington on the 22nd that after very thorough discussion the State Department had decided that any exception to the general rule of admitting no supplies at all to the occupied territories would create such difficulties that a rigid refusal of all supplies was the only practicable policy.³ In October Senator Capper, a Republican who had recently recanted his former isolationist position, published some letters from Mr. Hoover which included the statement that the United States had adopted a 'policy of starvation and slow death to these democratic nationals because it is a British policy', and in a radio address on Sunday night, 19th October, Hoover appealed to the United States Government to use 'every influence in its power' to bring about an agreement permitting the distribution of food under the supervision of some neutral government. This meant that he had abandoned hope of American supervision, but otherwise he stuck to his earlier assertion that his plan for feeding Belgian children in

¹ E.B., i, 576.

² The text of this letter was published in the *New York Times*, 26th September 1941.

³ Members of the U.S. Administration who were opposed to relief on grounds of policy nevertheless took it for granted that the occupied countries were indeed 'starving'. Ickes wrote: 'Harsh and cruel as is the policy of withholding food from starving people, to do otherwise would be to strengthen Germany in its assault upon civilization' (*The Secret Diary of Harold L. Ickes*, iii, 385). The Ministry never accepted this assumption, except in the case of Greece.

the previous winter had been refused by the British Government, although the Germans had gone 'a long way' towards accepting it.

It seemed well for the British authorities to leave the State Department to deal with Mr. Hoover's embarrassing and perhaps disingenuous propaganda. The facts about the virtual German rejection of the Hoover plan for Belgium, as they were explained to the Ministry by an official of the American Red Cross on 11th October 1941, were as follows. Mr. Hoover, no doubt bearing in mind the fact that in June 1940 the German Government had withdrawn all offers to facilitate American relief in Poland,¹ had in February 1941, through his representative, Mr. Dorsay Stevens, laid down three conditions for Belgian relief. These were that an American commission should determine where the need for relief existed, that distribution should be under American supervision, and that Germany should provide 50 per cent. of the foodstuffs used in the relief scheme.² In March similar proposals had been made by the American Friends. On 25th February Mr. Hoover's representatives in Berlin had received a reply by which the German authorities claimed to have 'fallen in with this plan to a considerable extent'. They accepted the idea of a small neutral Control Commission with residence in Brussels; they promised that neither the foodstuffs which would be imported from overseas countries within the framework of the plan nor any other similar foodstuffs would be removed from Belgium or requisitioned in Belgium for the needs of the occupying power; and they pointed out, in connexion with the proposal that Germany should provide supplies, that considerable quantities of potatoes and cereals had been furnished by Germany for this purpose. The American Red Cross officials were convinced that this reply 'sidesteps completely the vital issues'. The reference to a small neutral commission in Brussels contained no guarantee that American representatives would be able to travel freely throughout Belgium supervising the giving of relief. Very few (if any) Americans would be included anyway, for it was clear that the commission, in addition to being small, was not to be confined to them. The other proposals were considered to sidestep the demand that the Germans should guarantee a definite percentage of the supplies distributed by the Hoover commission. The conclusion seemed inescapable: the Germans were not prepared to offer genuine guarantees, and Hoover was not prepared to admit

¹ A German Foreign Office memorandum of 21st May 1940 shows that this refusal had Hitler's approval, and was due to fear that relief operations would provide a cover for intelligence operations (*Documents on German Foreign Policy, 1918-1945* (H.M.S.O., 1956), Series D, Vol. XI, no. 292).

² Cf. E.B., i, 577. Mr. Dorsay Stevens' proposal was evidently an attempt to follow up a letter of 11th January 1941, in which the German Foreign Office laid down general conditions for the distribution of relief supplies in occupied countries. *Report of the International Red Cross on its activities during the Second World War* (Geneva, 1948), iii, 367. The *Report* does not refer to Mr. Dorsay Stevens' abortive negotiations.

the fact. The Ministry, while grateful for the information, would have found it of greater value in the spring; one official remarked that the tardy revelation by the American Red Cross 'is an indifferent return for our kindness in holding the Vichy baby while they humanely fill it up with milk'.¹

(ii)

Greece: interim arrangements, 1941-2

But at this point the Ministry was becoming increasingly concerned with the Greek situation and with the fact that American opposition to all relief except that for Unoccupied France was likely to hamper the British plans for a limited movement of relief supplies 'within the blockade'. Mr. Dean Acheson told Sir Ronald Campbell plainly on 25th September 1941 that Mr. Hull insisted that there should be no release of dollars to pay for food for occupied territories. We have seen, however, that the Ministry had agreed to this course in April, and since then, by arrangement with the refugee Allied Governments in London, it had allowed approved organizations to make purchases for the occupied territories from within the blockade area. Small quantities of certain foodstuffs not imported through the blockade were available in Sweden and Portugal, and there were slightly larger quantities in Turkey. Milk products could sometimes be purchased in Switzerland although the Germans were taking most of the surplus. By October the Norwegians had obtained some 5,000 tons of grain from Sweden and apparently some vitamins from Switzerland; the Belgians had bought 1,500 tons of miscellaneous foodstuffs in Portugal and small quantities in the Balkans, and there were plans for larger supplies for the Greeks from Turkey and possibly Switzerland. And the situation in Greece was such that even these supplies were soon found to be hopelessly inadequate.

The long and successful resistance to the Italians since October 1940 had been followed by the short, violent, courageous struggle of the Greek forces against the German war machine, which began on 6th April 1941 when Hitler threw 28 divisions, including 7 of his 19 panzer divisions, into the Balkan campaign against Yugoslavia and Greece. Organized resistance to the Axis on the Greek mainland had ceased by the end of April, and in Crete by the beginning of June.

¹ Some of the negotiations about Belgium with the German Government were conducted by the International Red Cross organization. There is a useful, but not always accurate, account of the International Red Cross's negotiations with the belligerents for relaxations of the blockade in the *Report* cited in the last footnote, pp. 366-82. Mr. Dingle Foot gave the text of the German statement on the offer of 25th February 1941 in the Commons debate on Economic Warfare on 8th July 1943: *Parliamentary Debates*, H. of C., 5th Series, vol. 390, cols. 2377, 2378.

British forces were then withdrawn to Egypt; the bulk of the German forces were in turn withdrawn for the Russian campaign, leaving Italy as the occupying power in Greece.

The difficulties of the Greek food position were at once apparent; during succeeding months their proportions amounted almost to tragedy. A small, mountainous country with a fringe of some fifty habitable islands, Greece had to suffer from her own loss of production, the depredations of her invaders, and the cutting off of her normal flow of food supplies from overseas. The country was not self-sufficient in foodstuffs. Of a total land area of 50,000 square miles only one-fifth was cultivable; and the 'luxury' products (tobacco, currants and raisins, olives and olive oil, wine) which were in large part exported, helped to pay for the 600,000 tons of wheat and fats and animal products imported to maintain the relatively low standard of living that prevailed. Greece had produced some wheat but the granary of the country (Thrace and Eastern Macedonia) was handed over to the Bulgarians by the Axis powers. At the same time, seaborne traffic came almost to a standstill, the merchant navy and the marine went away with the government to pursue the war from abroad, and so the many islands were cut off from the mainland. From the beginning of the Axis occupation Greece had to pay the price of her resistance in terms of starvation. Within a few months the daily bread ration was cut successively from 12 to 9 to 6, and finally to $3\frac{1}{2}$ ounces¹ in a country where bread really was the staff of life, being normally consumed by labourers at the rate of up to three pounds a day. Moreover the Italian and German invasions had resulted in the flight of thousands of refugees to the Greek cities, particularly Athens; the death and disease rates mounted appallingly during the winter of 1940-1, and during 1941.² In 1940 the grain harvest had been approximately equal to the pre-war average; that of 1941 was a little less than three-fourths of normal, and that of 1942 only about one-half.³ The harvests continued at this figure for the rest of the war.

The case for making an exception of Greece was not, however, strengthened by the accounts of German depredation in the country during the first months of the occupation. It soon became painfully obvious that the Germans had no interest in seeking to induce the

¹ The normal consumption of olive oil was 400 drams per month per head. For the year up to the middle of 1942 the distribution in Athens and the Piraeus was 125 drams. Existing stocks and current crops were taken over by the Germans.

² 'Next to the ghettos in the Government General, the cities of Greece probably suffered worse than any other area in occupied Europe during the war, aside from the famine that struck Dutch cities in the very last phase of the conflict.' (Karl Brandt and Associates, *Management of Agriculture and Food in the German-Occupied and other Areas of Fortress Europe* (Stanford University Press, 1953), p. 235). Chapter 17 of this work gives an account of the Greek relief operations based partly on the papers of the Reich Plenipotentiary for Greece.

³ In thousand tons: 1,308 (1940), 999 (1941), 650 (1942), 666 (1943), etc. *Ibid.*, p. 236.

Greeks to play an active and complementary rôle in the German economic system; the Wehrmacht operated on its general principle that the occupying forces should live off the land wherever possible, and for some months the only policy of the invaders seemed to be that of 'confiscation and looting of typical Teutonic thoroughness'. They requisitioned far in excess of local military needs. All meat stocks were confiscated. Greek food was sent to Libya, and there was a story that some Greek food—potatoes—surplus to the German requirements, had been thrown into the sea at Salonica, at a time when potatoes were unobtainable by the local inhabitants. The Germans appeared to have brought no food for their troops and to have no soldiers' messes; in Athens the German troops simply ate in the restaurants, and were billeted in requisitioned houses or in rooms in private houses. Many of the houses were thoroughly looted; there were reports that German soldiers made a practice of demanding the watches and jewellery of civilians in the streets. Not only was food requisitioned, but the occupying troops were liberally supplied with paper money printed by mobile presses up to any amount desired; thus the curse of inflation was added to Greece's other difficulties. While the nominal pre-war rate of 150 drachmai to the dollar was kept for banking purposes, the free market value of the dollar rose quickly to 300, 600, 6,000, 60,000, and 120,000; by mid-1944 it had reached 400 million. The Germans also confiscated the major part of the medical supplies, starting with an immediate seizure of 32,000 kilos of quinine held by the Greek Government. This and later seizures hastened the spread of malaria in many districts. Transport was seriously disorganized; it barely functioned save for the service of the occupying powers. With reports on these lines before it the British Government had to face the prospect that substantial relief measures from abroad might be nullified by the callous behaviour of the occupying powers, who had shown little inclination to exert themselves on their victims' behalf. When all allowance is made for the inevitable sufferings and temporary roughhandling of any civilian population in conquered territory it remains evident that the Germans behaved brutally and irresponsibly.¹

Accordingly the British Government, while providing temporary alleviation, had to do some hard thinking about its general relief policy and it was not until December 1941 that it was able to see its way to a fundamental relaxation of the blockade. The first of a long series of requests for help for the civilian population had been made to the Foreign Office by the Royal Greek legation in London on 25th April 1941, two days after the signature of the Greek armis-

¹ Ciano records Mussolini as saying (4th October 1941): 'The Germans have taken from the Greeks even their shoelaces, and now they pretend to place the blame for the economic situation on our shoulders.' (*The Ciano Diaries*, p. 387.)

tice with Germany. The British Government was asked to authorize the shipment of food and medical equipment for the needs of the civil population in the occupied regions of Greece. In the first instance the reply had to be that as it regarded foodstuffs as contraband it could not allow the passage through the blockade of food for occupied territories which would materially benefit the Germans, and lighten their task in supplying and ruling these territories. But it was accepted from the start that Greece, in view of her valiant resistance to the Axis and her normal dependence on imported food, was a special case, and the Foreign Office took the lead in pressing the view that something effective, whether consistent with the blockade or not, must be done. The Ministry too was quick to recognize, during departmental discussions in May, that relief pressure in the case of Greece would be much stronger and more difficult to resist than in the case of other occupied territories. It was accordingly concerned, during the remainder of the year, to find means of facilitating supplies to Greece 'within the blockade', knowing that if these were not adequate pressure for a relaxing of the blockade would increase.

The first plan, which was put forward by the Foreign Office in May 1941, was the shipment of medical supplies from the United States, and wheat from Soviet Russia. Medical supplies in the strict sense were not contraband. Russia was still placing at Germany's disposal all the grain she could spare; the sale of Russian grain to Greece could therefore be welcomed, for it would not add to the amount available to Germany and would be supplied in the blockade area. Mr. Eden and Mr. Dalton were engaged in a lively correspondence as to whether the Russian grain should be sent to Greece by sea—a course to which the Ministry objected because it would involve passage of grain through the blockade—when Hitler's attack on Russia on 22nd June ended this controversy, and attention then turned to the possibilities of supply from Turkish sources. Here too there were some difficulties from the blockade angle. Turkey was within the blockade area, and as she was supplying produce to the enemy there was no reason why some of this should not go to the Greeks. On the other hand Turkey could not supply wheat, which was the chief Greek need, without fresh imports from Allied sources to replenish her own supplies. Mr. Dalton also felt disinclined openly to grant permission for the passage of food into enemy occupied territory, as this might lead to undesirable 'repercussions' elsewhere. He wished supplies for mainland Greece to go by land, in order to maintain pressure on the enemy's land communications; but he was prepared to agree to the supply by sea of the Greek islands, including Crete, for these could clearly not be supplied in any other way. However, he agreed on Mr. Eden's request to waive this objection, and

the Greek Government was then told that there was no objection at all to its purchase of such foodstuffs as were available in Turkey, since this need not involve an infringement of the blockade. Instructions to this effect were sent to the British ambassador in Turkey on 13th July, the U.K.C.C. representatives were instructed to take an active interest in procuring supplies, and on 19th August, after lengthy negotiations with the British commercial counsellor in Ankara, the Turkish Ministry of Commerce agreed to issue licences to the U.K.C.C. for a considerable range of commodities and supplies for Greece. The supplies were to be purchased by the Corporation against payment in sterling, which would be recovered in London from the Greek Government.¹ The U.K.C.C. received an advance of £100,000 to start buying, with a further £100,000 in December. It was hoped that the Greek Government would get as much credit as possible for this scheme and that as little publicity as possible would be given to the fact that ships were being allowed to pass through the controls to Greece.

To this extent the British efforts on behalf of Greece were continuous from the moment of Greek collapse and Allied evacuation in the early summer of 1941. At this point the Government showed itself to be more forthcoming than that of the United States, and it seemed for a time, in September, that even the British plans for relief inside the blockade would be frustrated by the American refusal to release dollars. The undesirable effects of publicity for the arrangements became only too obvious when an American broadcast from Ankara by Martin Agronsky on 19th September announced that 'Britain had decided to lift her European blockade for the sake of Greece' and that the supplies to be sent included wheat. This implied that the British had undertaken, together with the United States and Turkey, responsibility for feeding the Greeks, and that preference had been given to the Greeks over Britain's other allies.² On 11th September a B.B.C. broadcast on the need for Greek relief appeared to hit the Germans very hard; they replied the same afternoon, and said that the German Government did not close the door to British relief measures. It seemed nevertheless to the Ministry and the Foreign Office that it would be inadvisable to make too much of British assistance.

The first relief ship from Turkey, the S.S. *Kurtulus*, sailed on 13th October 1941; its cargo was carried under the direction of the Turkish Ministry of Communications by the Red Crescent, with two of their observers on board. The International Red Cross made the

¹ Quantities were as follows: fish unlimited; potatoes, 5,000 tons; onions, 5,000 tons; eggs, unlimited supplies after opening of export season; wild boar meat, unlimited; chickpeas, 5,000 tons; haricot beans, amount subject to harvest; broad beans, ditto; live stock, 40 to 50 thousand head of goats and kids.

² Agronsky received his facts from a Turkish editor.

necessary arrangements for reception and distribution in Greece. The Axis powers gave a safe conduct to the ship for its passage from Istanbul to Piraeus. The *Kurtulus* completed four more voyages, the last commencing on 12th December. On 21st January 1942 it was reported that the ship, which had sailed on 27th December to Piraeus fully loaded with a fifth cargo, had gone aground on a small island in the Sea of Marmara and had since been sunk. Just before this sailing the Turkish Government had made difficulties about the continued use of the ship for the Greek relief service on account of Turkey's shortage of tonnage for her own purposes, and had consented to its continued use only after the British Government had agreed to make available a Greek ship of comparable size for the trading between Port Said and south-east Turkey. By this stage, however, plans were well advanced for the chartering of a vessel, the *Hallaren*, by the Swedish Red Cross for the relief service to Greece, and arrangements were now hurried forward to bring this Swedish ship into service. The British Government undertook to meet the cost on a no-profit basis. Between October 1941 and August 1942 a total of some 20,000 tons of Turkish food was sent to Greece under these arrangements, but Turkey could not give up supplies beyond this amount.¹

There was never any doubt that these supplies from Turkey were the merest palliatives, and by the end of the year three developments had brought the British Government to accept the need for the sending of wheat through the blockade. The first of these was the continued reports of famine and starvation in Greece and the islands, the second the evidence that the Axis Governments might be prepared to honour their obligations under an internationally-sponsored relief scheme, the third the decision of the United States Government to acquiesce to this extent in a breach of the blockade.

Reports from Greece as to the intentions of the occupying powers were, it is true, conflicting; it still seemed that the Germans were indifferent, the Italians better intentioned but, because of their own wheat shortage, ineffective.² All German requisitioning was said to have ceased on 1st November 1941; but by this time there were only some 50,000 Germans left in the country, there was little more that they could take, and they showed no intention of restoring what they had seized in the spring or in providing supplies for the future. A persistent wireless and press campaign put forward wildly exaggerated claims concerning the quantities of food that were being supplied to Greece by the Axis, but seemed undecided as to whether Greece

¹ The British embassy in Ankara had originally hoped, in October 1941, that the U.K.C.C. would be able to procure 50,000 tons for this purpose. Some further details of the activities of the *Kurtulus* are given in the *Report of the International Committee of the Red Cross*, *op. cit.*, ii, 52-3.

² Cf. Ciano's comments: *The Ciano Diaries*, pp. 389, 390, 402, 406, 440, 448.

was still starving owing to the British blockade, or adequately fed owing to Axis assistance.¹

By the end of December it was known in London that Germany refused to supply any food, and that Italy was unable to feed the Greeks adequately.² Both Axis Governments seemed to be trying to put the British in the wrong, and to blackmail them into relaxing the blockade. In reply to an appeal from the Holy See on 29th September 1941 Mr. Eden remarked that it was the duty of Italy, as the occupying power, to feed the Greeks; on 24th October the Cardinal Secretary of State expressed his 'deepest distress' at this reply, and said that the Italian Government was doing its best, but with strictly limited powers; on 3rd November a further message from Mr. Eden referred to the 'spoliation and pillage' of Greece, the impossibility of drawing any distinction between Italy and Germany in this matter, and the fact that the German Government continued to boast of its ample supplies. On 7th November the Cardinal told the British minister to the Vatican, Mr. D. G. Osborne, that the reply to an appeal to the Germans had been that they would await the British reply before pursuing the matter further! The British minister characterized this as a 'monstrous evasion of responsibility combined with blackmail'. The Cardinal did not dissent, but said

¹ The Athens correspondent of the *Donauzeitung* (Belgrade, 20th November 1941) wrote: 'England has now realized that she cannot starve unconquerable Germany, so she has decided to try to starve the occupied territories . . . The Axis Powers have already sent millions of provisions to Greece, and tens of millions will follow.' Radio Luxemburg (in English for England and North America, 19th December 1941), said that 'the position of Greece with regard to food supplies has been further improved by the arrival of more foodstuffs from Germany and Italy, and supplies for Athens are for the time being safe. The enemy powers, who by their unlawful hunger blockade are alone to blame for the present situation of Greece, affirmed that Germany and Italy had deprived Greece of her food supplies . . . The Greek Press also expresses gratitude to Germany and Italy for their constant assistance.'

² Brandt (p. 238) has a very brief reference to German-Italian relations at this point. A fuller account of Italian policy is contained in a memorandum supplied to the present writer by the Italian Ministero degli Affari Esteri on 7th August 1945, and giving a detailed account of the Italian relief measures. According to this account the foodstuffs situation in Greece was examined by a meeting of the Italian and German Economic Delegation in the summer of 1941 and as a result both governments agreed that in succeeding months the Greek civil population should be supplied with cereals in equal parts by both governments. The Italian despatch of wheat and maize was started at a rate consistent with the growing shortage of ships and the Allied blockade. 30,000 tons of cereals were sent in the autumn, consigned mainly to Greek ports of the Ionian Islands and west coast. German supplies were irregular; they should have sufficed for Athens for several months, but after much delay ceased entirely in November 1941. The suspension of these German supplies, formally notified to the Italian Government in Rome, was without warning, and disastrously aggravated the food situation, particularly in the Athens-Piraeus area. In spite of Italy's own shortages, the Italian Ministry for Foreign Affairs succeeded after much persistence in obtaining an allocation of 50,000 tons of cereals, together with medicines, and some petrol and coal, for Greek use. Shipment of these amounts started in January 1942, but proceeded rather slowly owing to acute shipping difficulties. Two ships of 7,000 tons each with coal and foodstuffs were sunk. 'The growing dangers of the sea route, the difficulty of obtaining the escort of warships and the state of the port of Piraeus, then occupied and monopolized by the Germans, imposed long delays on the ships so that the voyage there and back often took two months.' German supplies were to have been sent from the Banat by rail to Salonica and thence by rail or motor sailing vessel to Piraeus.

that the immediate issue was to save life. The British minister's comment was surely justified. Nevertheless, when the British Government was finally convinced that the Germans were not going to bestir themselves in the matter it decided that it must act. The Ministry's experts did not believe that Germany was suffering at this time from any shortage of bread grains; but while this meant that she could if she so wished find enough for the Greeks it might also mean that she would have no great temptation to plunder them of supplies which came to them through the blockade. Throughout, the only direct blockade advantage that the Allies could have hoped to draw from the Greek situation was the embarrassment of German transport arrangements, rather than any appreciable diminution of Axis supplies.¹

As a result of prolonged discussion in the War Cabinet it was finally decided that Greece should be regularly supplied with wheat from outside the blockade. The first step was a Cabinet decision on 12th January 1942 to allow one cargo of 8,000 tons of wheat to be sent. A proposal had been made to the Cabinet on 24th December 1941 that, in order to preserve the principle that the enemy was responsible for feeding the peoples of enemy-occupied territory, 'clandestine' supplies should be sent to Greece; but this had been rejected because of the 'very serious difficulties' which would be involved. At the beginning of December Mr. Hull and Mr. Acheson were understood to be still maintaining their opposition to wheat shipments to Greece, but on 11th December Mr. Winant let the Foreign Office know that his Government was now willing that some wheat should be sent. The decisive step on the American side was an assurance, given to the British embassy on 3rd January 1942, that the State Department would not make further difficulties about releasing dollars for purchases in Turkey by the U.K.C.C. on behalf of the Greek Government, although it was still not prepared to release dollars for shipments to Norway from Sweden. A strongly-worded telegram of 9th January from the Minister of State in Cairo, Mr. Oliver Lyttelton, to Mr. Churchill in Washington, urged the sending of wheat: 'I appeal not only to mercy but to expedience'. On 13th January Mr. Churchill telegraphed his agreement to the Cabinet's decision of the previous day, and after the United States had agreed the decision was announced in Parliament on 27th January, with a precise statement that blockade policy was unchanged.

¹ There is no doubt some truth in the German contention that Greek guerilla sabotage and British naval and air action made transport even of military supplies difficult by the limited routes open to the German authorities (cf. Brandt, p. 239).

(iii)

Greece: the International Relief scheme, 1942-4

It at once became obvious that this single shipment of 8,000 tons would satisfy nobody. The Greeks naturally wanted much more, and the Greek Prime Minister, M. Tsouderos, even hinted that he might resign if further shipments were not allowed. But the British Government, after accepting the principle of a breach in the blockade, was also unwilling to leave Greece with only this 'token' shipment. The next decisive step was accordingly a proposal by Mr. Dalton, which the Cabinet accepted on 16th February 1942, that further shipments of wheat or flour should be allowed to go to Greece. Mr. Dalton was no doubt right in maintaining that the worst possible policy was to make piecemeal concessions. These would involve unconditional and therefore entirely uncontrolled shipments; the upsetting of the programme of the Middle East Supply Centre; the temporary withdrawal of tonnage urgently needed for the Allied war effort; and the setting of a precedent for uncontrolled relief which could be invoked by other occupied countries. He wished, therefore, for an adequate plan which should be decided in advance and then adhered to strictly. The essential features of his plan were that future shipments should be made in neutral ships (not at present under Allied control), with neutral crews; they should be given safe conducts enabling them to take the wheat from its source to Greece; an attempt should be made to secure Swedish shipping from the Baltic for this purpose, and the supervision of distribution should be by the Swedish Red Cross.

Thus was launched the programme under which Greece was fed by the Allies for the remainder of the war. The United States Government agreed to the plan in principle on 27th February, and the Swedish Government accepted it with enthusiasm at the beginning of March; sufficient tonnage was available in the Baltic, and the Swedes undertook to negotiate with the German and Italian Governments as to the conditions under which relief would be administered. The programme was throughout a matter of British inspiration. Five conditions were laid down by the British and United States representatives in an *aide-mémoire* for the Swedish Government of 2nd March. These provided for the safe-conduct of ships; a neutral commission for distribution; reservation of relief foodstuffs solely for the Greek population and their distribution where need was greatest; the replacement with equivalent imports

from Axis sources of any indigenous Greek foodstuffs consumed by the occupying powers; adequate powers and freedom for the commission to do its work properly. The Swedish Government undertook to pay the expenses of the control commission, and the Greek Government undertook to reimburse the Swedish owners for the use of the necessary Swedish ships. It was the British Government's wish to make a gift of the wheat to the Greeks, and in practice this meant that it would have to come from British stocks in Canada. As the replacement of this amount for Great Britain's own needs would have to be made by Canada, and would be covered by Canada's billion dollar gift to Great Britain, the practical result would be that the wheat would be a Canadian gift to Greece. The Canadian Government agreed on 25th April to make a free gift of 15,000 tons of wheat a month from Canadian stocks, and gave orders to the Canadian Wheat Board to make the necessary arrangements for shipment without delay. This monthly Canadian contribution continued to be the basic element in the feeding of the Greeks for the remainder of the war.¹

The Swedish Government started its negotiations on the five conditions in Berlin and Rome in the middle of March 1942. The Italian Government at once announced to the International Red Cross in Geneva that it would no longer be able to supply wheat to Greece after the end of March; but after this the Axis Governments took their time over their replies, and agreement was not reached until the end of June. The German Government gave an interim reply on 2nd April saying that it hoped to give a definite answer after the Easter holidays; a favourable Italian reply, with some reservations, was received by 18th April, but the German reply continued to be delayed.² By 27th April the Swedish Government had sent fourteen reminders, but the German State Secretary apparently dared not reply without higher authority. After a Swedish enquiry as to whether the British Government should be told that the negotiation had fallen through, the Germans answered on 30th April accepting the plan, although not without reservations and not in the same terms as the Italians.

The main difficulty was now the obvious desire of the Italian Government that the Swedish commission should be subordinated

¹ But it is not mentioned in the *Report of the International Committee of the Red Cross, op. cit.*, which says (p. 159): 'The grain and grain products were purchased in the United States, Portugal, Egypt and Palestine, and the other foodstuffs for the most part in Turkey.'

² It appears that the delay at this stage was due to discussions between the Germans and Italians as to the conditions of acceptance. According to the Italian account already referred to (p. 266) the German Government put forward so many objections and limitations concerning the route to be taken by the ships that there was considerable risk that the enterprise would be unsuccessful. They declared in fact that they could not authorize the ships to travel across the North Atlantic and recommended that it should be proposed to the Swedish Government to have them loaded in the ports of Mexico. Count Ciano finally secured the dropping of this demand.

to the existing mixed control commission, whereas the British and Swedish Governments felt that the position should be rather the other way round—that is, that the effective control and supervision of Greek relief at all stages should be in Swedish hands. The existing organization for Greek relief consisted of a governing body of directors representing the International, German, Italian, and Greek Red Cross organizations, with apparently a Turkish member. Under this there functioned an executive commission composed of Swiss and Greeks. The International Red Cross clearly favoured the simple but inadequate expedient of attaching a few Swedes to the executive body, leaving the high control in the hands of the International Red Cross and the Axis. The Ministry of Economic Warfare did not feel that the form of the thing mattered very much, and it recognized the advantage of some arrangement with the Axis Red Cross societies, if only because these societies were in a position to help with the provision of transport. The essential point was that the Swedes should have effective control. The Germans had merely suggested in their reply that close collaboration should be established between the existing organizations and the Swedes, and the Swedes took up this idea and proposed to the International Red Cross the erection of an independent and purely Swedish commission of control for this purpose. But the Italians, evidently hankering after Italian and German control, were inclined to stick to their guns, and the matter remained under discussion throughout May.

A compromise scheme was finally elaborated by the Swedish Government in conjunction with Dr. Junod of the International Red Cross, whereby the executive committee ('Commission de Gestion') should consist of equal numbers of Swiss and Swedish members (about 30) with a Swedish chairman, and should have effective control. Its duties would include the receiving of all relief supplies arriving from neutral countries or overseas, the distribution of this relief in Greece, and reporting to the International Red Cross on the situation of the Greek population and the desirability of increasing or diminishing relief arriving from overseas. The existing 'supreme committee' with its German and Italian members would remain, and would operate chiefly as a liaison with the occupying authorities, but the executive committee would have the real control. This arrangement more or less satisfied Italian *amour propre*; the Germans, who appear to have been irritated by the Italian attitude, had no objections. Axis agreement appears to have been given about 10th June. The Germans in their first reply (at the end of April) had tried, probably for security reasons, to limit the distribution of food-stuffs to the 'most distressed areas, namely, the Greek Mainland, Peloponnese, and Crete'. The British Government objected to this attempt to exclude the islands, where famine was acute, but it was

decided that this matter could best be settled on the spot when once the commission was in operation.¹

The essence of the bargain which the belligerents thus made between themselves was that Great Britain, on behalf of the Allies, had agreed to relax the blockade and arrange for transport and supplies which the Axis undertook not to misappropriate. The pillaging of Greece in 1941, and the earlier refusal by the German Government to allow adequate neutral supervision of relief work in Poland and Belgium justified the Allied insistence on Swedish supervision. The undertakings which the Axis finally accepted were as follows.

1. All the belligerents were to give safe-conduct in both directions for ships engaged in carrying foodstuffs for distribution as relief under the scheme.
2. The neutral commission to be established in Greece was to have under its direct control the distribution of all goods imported as relief.
3. Foodstuffs imported as relief were to be reserved for the Greek population and to be distributed wherever, in the opinion of the Commission, the need was greatest.
4. Foodstuffs originating in Greece were to be reserved solely for persons normally resident in Greece in peace-time except insofar as any foodstuffs consumed in Greece by the armed forces or officials of the occupying powers were replaced by equivalent imports of foodstuffs from Axis sources into Greece for the Greek population; and except insofar as the Commission might approve the export of any genuine surplus of olive oil, or dried or fresh fruits in exchange for foodstuffs of other kinds.
5. The Commission was to have the right and duty to verify by direct observation that these conditions had been fulfilled, to be sufficiently numerous and to maintain a sufficient staff, and to enjoy (with its officials) such complete freedom of movement and facilities for inspection and enquiry as were necessary for this purpose.

The acceptance of this Swedish scheme meant the abandonment of the Italian relief measures; we have seen that when the Germans refused to send supplies after the end of November 1941 the Italian Government had made efforts to send some wheat, but had announced its inability to do so after the end of March 1942. After the war the Italian Government claimed to have supplied 30,000 tons of wheat and maize in 1941 and 50,000 tons in 1942. Although these supplies merely offset the heavy requisitions that had been

¹ The Final Report of the 'Commission de Gestion', *Ravitaillement de la Grèce Pendant l'Occupation 1941-1944* (Athens, 1949) gives some additional details of the negotiations (chap. III.)

previously made by the occupying forces it can be said that they were made at a time when the bread ration in Italy had been reduced from 200 grammes to 150 grammes per head. Until the regular monthly shipments of Canadian wheat began in August 1942 there were interim shipments from Allied sources following the 8,000 tons decision in January. The first cargo of wheat from the Near East under this plan came to Greece in the *Radmanso*; another Swedish ship, the *Sicilia*, transported direct from the United States 2,300 tons of lease-lend flour and a consignment of medical supplies; in all, 40,000 tons of food supplies were received during the first year of emergency relief.

The detailed story of the planning and execution of the relief programme in Greece lies outside the scope of this book.¹ We are concerned with the blockade, and it must suffice in this chapter to explain the circumstances in which this one substantial breach in the blockade of Axis Europe came about. When this breach had been agreed to in principle the matter became primarily one of shipping and supply, although the Allied blockade authorities had always to watch with a suspicious eye for Axis attempts to turn the situation to their own profit.

We can, however, summarize the Allied contribution briefly by saying that an increasing scale of relief imports undoubtedly saved the Greek nation from the decimation which was threatened by the famine of 1941-2; it is impossible to say how many Greeks would have had to starve to death before the Germans took action, but there can be no doubt that adequate food supplies could have come within the blockade area only from German sources. As the Allied Governments were unable to enter on a battle of wills with the Germans over the dying bodies of their former allies they accepted the principle of relief on terms which led naturally to increasing shipments. 3,000 tons of dried vegetables and 300 tons of tinned milk were added to the monthly allocation of 15,000 tons of wheat in November 1942; thereafter the monthly ration remained at about this figure for some time, but with substantial increases in the last phase of the war it reached 35,000 tons in the autumn of 1944. To the monthly Canadian wheat allocation of 15,000 tons were thus added substantial supplies from other sources. Of these the biggest was that of lease-lend supplies including dried vegetables, fish, milk, and soup concentrates. The Argentine Government contributed 50,000 tons of wheat. There were large supplies of medicines, although in September 1943 the Japanese Government refused to consider a Swedish suggestion that it should provide quinine for

¹ The Final Report of the 'Commission de Gestion', *op. cit.*, gives in chap. IV the composition and duties of the commission; subsequent chapters give a detailed account of the commission's activities.

Greek relief. The Swedish Government and Red Cross continued to take direct responsibility for the work; and supplies from Allied sources included motor transport, fuel, and other equipment for the relief commission's own use. Sweden continued to supply shipping; the number of vessels employed had increased to 16 by the autumn of 1944, after four had been lost at sea. The Greek Government continued to pay for the chartering of these vessels until the end of 1942, when its funds were approaching exhaustion; the United States Government then took over this payment.¹

Experience of the working of the Greek scheme left the British authorities in no doubt that it was of substantial benefit, direct or indirect, to the enemy. In the broadest sense the Germans were relieved throughout of the obligation to send supplies to Greece comparable to the relief shipments which were arriving regularly at Greek ports from United Nations sources during 1942, 1943, and 1944. More specifically, during the period from March to August 1942, when the emergency shipments were being allowed through the blockade, Greek local produce was still being seized by the Axis authorities without apparent regard to the needs of the population; this applied particularly to the olive oil harvest. There seemed no doubt that after its arrival in Greece at the end of August 1942 the neutral commission was generally able to carry out successfully the first of its tasks—that of protecting the imported foodstuffs. But there was much less certainty with regard to its second task—that of protecting Greek domestic produce. The delegate in the Peloponnese for March–December 1943 alluded to withdrawals of native food adversely affecting the supply situation, and in several cases the commission reported that foodstuffs had been replaced by the Germans, but only after protest, and that replacement would not have been made if the local delegate had not discovered the offence. It was of course a breach of the agreement to requisition commission-owned foodstuffs even if replacement was intended. There were a series of complaints of requisitioning in the summer of 1944; they came mainly from Greeks escaping to Egypt and referred entirely to the provincial areas. There seems no doubt that while the commission was able to exercise fairly close supervision in the principal Greek cities it was impossible for it to do so in the remoter areas, and it was unable to prevent a not inconsiderable part of the food and supplies finding their way onto the black market. In the later stages

¹ There is a useful summary of the relief story, based on official U.S. sources, by F. D. Kohler, 'The Relief of Occupied Greece' in the U.S. Department of State Bulletin, for 17th September 1944; it omits, however, all reference to the Argentine contribution. Kohler estimates the various national contributions in round figures as follows: U.S. lease-lend contributions to the Greek Government, \$15,000,000; Canada, \$12,000,000; United Kingdom (the early relief shipments), \$6,000,000; Sweden and Switzerland, \$1,000,000 each. Private American contributions through the Greek War Relief Association and the Red Cross amounted to some \$5,000,000.

of the war the German authorities were unwilling to allow the neutral commission to operate in areas held by Greek guerilla forces, with the singular result that relief was being sent to the areas under enemy occupation which was denied to those in the hands of Greek patriots. One of the reasons why Germany made little or no attempt to relieve the famine in Greece in the winter of 1941-2 was undoubtedly that Greece had few industries and could make comparatively little contribution to the German war machine, and that the German need for labour was less in Greece at that time than elsewhere in occupied Europe. But this situation changed after the break through at El Alamein and the Allied landing in North Africa; the Germans then used Greek labour extensively to erect fortifications against a possible Allied landing in Greece. If an Allied landing had taken place, Allied casualties would have been greatly increased by this Greek labour which was made available on food provided by the Allies.

In the final summing up of its work the commission made estimates of the total losses suffered by the Greeks as a result of Axis occupation. It was a matter of prestige for the Germans and Italians, under the eye of the commission, to fulfil their obligations under the international agreement, although their compensations for requisitions did not balance their total inroads into Greek food supplies. During the period from 1st September 1942 to the end of the occupation, while German requisitions of foodstuffs amounted to 66,100 tons, 114,700 were supplied in compensation. In terms of calories the total Axis (German and Italian) requisitions for this period were (in millions) 211,000; compensations, 394,000. These figures omit, however, the losses and seizures of the period before the arrival of the Commission. Moreover, during the period of the commission's activity, that is, from 1st September 1942, it was estimated that the Axis troops killed some 40,000 head of cattle and 600,000 sheep and goats. Thus the commission's final balance sheet for the Axis impact on Greek food supplies, using million of calories as a unit of measurement, gives the following figures: requisitions, 211,000; destruction or pillage of foodstuffs, 180,000; of livestock, 220,000; total, 611,000. Compensations, 394,000; food left by German troops, 34,000; total, 428,000. In short, a net deficit during the period of the commission's activities of 183,000 million calories.¹

These figures can also give no estimate of the amount purchased on the black market and elsewhere by the occupying troops with inflated drachma, nor the effect of the disappearance of the supply of native produce in the last stages of the war. This result was due to such various and interrelated causes as the declining internal pro-

¹ These figures are derived from the detailed analysis in the Final Report of the 'Commission de Gestion', *op. cit.*, pp. 90-124; cf. Brandt, *op. cit.*, 238-48.

duction resulting from the interruptions of guerilla warfare, to lack of seeds, fertilizers, and draft animals, to the virtual destruction of the drachma by the reckless Axis inflation, and to the savage German reprisals on the eve of the final collapse.

(iv)

British opinion and Relief

For the Ministry of Economic Warfare, therefore, the story of Greek relief, as it unfolded itself during the war, was hardly likely to encourage any hasty relaxations of the blockade elsewhere. On a number of occasions between 1941 and 1944 it put forward schemes for the evacuation of children, especially Jewish, from occupied countries to neutral or allied territory: the non-success of these proposals strengthened its doubts about the intentions of the Axis Governments. Early in 1942 British plans were well advanced for at least 25,000 Greek children to be transported to Egypt and thereafter maintained until the end of the war in various parts of the British Empire. This scheme fell through because at the last minute the Axis Governments refused to let the children go. There followed during the next two years a number of discussions with representatives of the Swiss and Swedish Governments. Thus the Swedes were asked to receive a substantial number of children from Norway and possibly from other occupied countries, and also Jewish children from any part of German Europe. This they were very willing to do; but the Quisling Government in Norway refused its consent, and although there was no official *démarche* it was made clear to the Swedish representatives in Berlin that their offer to take Jewish children would not be entertained. The Swiss were ready at all times to receive child evacuees, and at one point informed the British and United States Governments that they would be willing to receive 50,000 children, and to feed them from their own resources; they would ask for Allied assistance only in respect of any greater number which might pass the Swiss frontier. At the request of the two governments the Swiss sounded the Germans about this scheme, but no reply was ever received from the German Government. The two governments in 1943 also welcomed a plan sponsored by the Irish Red Cross for the reception of child-evacuees from German-occupied Europe in Eire, and the British Government was ready to provide any facilities in its power for the purpose. The Government of Eire then approached the German Government, and in this case too no reply was ever sent from Berlin.

Much of this story and of the intricacies of the problem of relief

were unknown to the public in Great Britain and the United States. There was always some public concern when stories of the plight of the Greeks or Belgians or other subjugated peoples became headline news in the British press, and some organized pressure was exerted by societies with a more or less single-minded interest in famine relief. This pressure, with its implied or direct criticism of 'the blockade', was often beside the point; the degree of privation (except in the case of Greece) and the willingness of the Axis to accept effective supervision, were constantly exaggerated, and effective action had been decided on in the case of Greece before any serious demand for it was voiced. There was, nevertheless, a continuous if fluctuating flow of personal letters to the Ministry which gives some indication of the movement of opinion. It amounted to no more than a few letters a week until the end of 1941; the Ministry then received 87 in the week of 19th–26th January 1942, and 115, 155, 87, 86, 56, and 43 during the following six weeks; after the end of March however the number averaged only about one a day until the end of September. There was another heavy post during October (some 200 letters); then the flow dropped again for the rest of the year to an average of about two a day. In addition to these letters from individuals, however, there were between mid-January and mid-April 1942 some fifty letters with a large number of signatures (mostly between about a dozen and forty, but with one or two bigger ones) representing in most cases petitions circulated for signature in local meetings and areas. This correspondence in the early months of 1942 is clearly a reflexion of the reports on the plight of Greece in the public press. The Ministry was anxious not to prejudice the Swedish-supply scheme in the spring and early summer by publicly criticizing the conduct of the Axis powers, but in replies to letters it felt free to blame the two enemy governments equally for the delays. The fresh flow of letters in October 1942 was due in the main to a sensational article in the *News Chronicle* of 24th September, under the heading 'nine out of every ten babies in Athens died of starvation'. It alleged that there were in Argentina thousands of parcels of milk, for which navicerts had been refused. This was not in fact true, but it evidently satisfied some correspondents that the British Government had starved the babies. One writer in Stockport sent a copy of the *News Chronicle* article to Mr. Winston Churchill, and wrote, 'It distresses me when I think of the part we, as a Nation, by methods of Blockade etc have contributed to bring this present world holocaust about. Oh for the clarion voice of a William Ewart Gladstone to call the Nation and the World from such iniquity!'

If the heart dictated these occasional cries of distress, common sense satisfied many of the critics that it was an unjustifiable emotional indulgence to saddle one belligerent with blame for the

acts of another. The Minister of Economic Warfare or his staff, who answered with patience and courtesy virtually all the personal letters that were received, always insisted both on the duties of the Axis powers and the folly of aiding their war effort. Greece was 'wholly exceptional', but for the rest 'if we send substantial quantities of food to occupied Europe we shall increase the supplies available to the enemy and make it easier for him to exploit the industrial and other resources of the occupied countries, as he is straining every nerve to do. This would enable him to prolong the war and thus we should actually add to the sufferings of the very people we are trying to help.'¹ The Ministry did its best to avoid a discussion of its ultimate dilemma. Could a food blockade really harm the enemy except at the cost of widespread starvation? If this occurred, could the British Government, after its prompt aid to Greece, refuse help to other areas? If Axis Europe was sufficiently well fed not to need relief, why refuse small relief contributions, and indeed why maintain the blockade at all? The Ministry was partly a victim of its own propaganda, and of the general exaggeration of the potency of the blockade weapon in the first World War.² Axis Europe was sufficiently well fed not to be particularly vulnerable to this sort of attack, and the Ministry was justified in saying that the case for relief in places other than Greece had not been proved. As we have seen, the chief purpose of the blockade in relation to food was to place the maximum strain on Axis transport and to tie up large numbers of agricultural workers who would otherwise be useful to the Axis in other capacities. Even here, however, it was by no means certain that the reservoir of foreign workers who could be used in military or industrial activities was not greater than the demand.³

The exaggeration of the degree of distress was the Ministry's main complaint against its critics. An organization called 'The People's Common Law Parliament' collected signatures in the summer of 1942 to a declaration with the two following opening paragraphs.

A DECLARATION FROM HIS MAJESTY'S LOYAL SUBJECTS
TO HIS MAJESTY'S GOVERNMENT

The British Blockade is causing tens of thousands of innocent peoples in German-occupied countries to die of starvation and of the plagues now raging in Europe and is alienating these Allies who fought at our side in the war.

There is an imminent danger of the plagues attacking this country and against which we have no adequate means of defence owing to

¹ This was part of a reply of 8th July 1942 to a letter from the staff and students of a training college for teachers. It served as a model for a number of similar replies during the war.

² Cf. E.B., i, 34.

³ See above, pp. 8, 9.

the undermining of the health of our people by malnutrition during pre-war years, the weakening of Medical Defence on the Home Front by members of the medical profession joining His Majesty's Forces, and to the use of medical precautions which were insufficient during the epidemics arising from the Great War. . . .

The Ministry of Health was somewhat indignant at these statements, and the Ministry of Economic Warfare in a letter to the organizer of the petition said that it had always been the policy of the British Government to admit through the blockade sufficient quantities of medicines with a strictly humanitarian and non-military application. Another organization, the 'Friends of Our Allies Council', collected (mainly in Bristol) 2,000 signatures on printed forms, urging the government 'to permit a cautious experiment for the feeding of children and the aged in Belgium, Holland, and Norway'. This petition was sent to the Ministry, with a covering letter on 6th July 1942 which referred to Belgian relief in the last war as having been successful 'without lengthening it by a single day', and said that several similar schemes 'have already been framed by experienced bodies'. This was one of a number of assertions of the unqualified success of the Hoover administration. Another source of criticism of the government was the Peace Pledge Union,¹ which organized a 'Food Relief Campaign' throughout the country. Pacifist by definition, it was considered to be defeatist by implication, and Mr. Dalton said bluntly in the House of Commons on 10th February 1942, 'I myself pay no heed at all to anything emanating from the Peace Pledge Union'.² Mr. Roy Walker, the secretary, and Miss Vera Brittain, the chairman, of the 'Food Relief Campaign' addressed meetings throughout the country, while the former wrote constantly to the Minister.³ A pamphlet by Mr. Walker, *Famine over Europe*,⁴ and a harrowing paper called *Famine*, had some influence, if only in providing ammunition for letter-writers. There was a noticeable family resemblance between these publications and the literature put out by the Hoover organization before the entry of the United States into the war. The most influential body was considered to be the 'Famine Relief Committee', whose object was

¹ Its notepaper was headed, 'The Peace Pledge Union, A Development of H. R. L. (Dick) Sheppard's Pacifist Pledge' and above this was the quotation, 'I renounce war and I will never support or sanction another'.

² This was in reply to a question from Mr. Evelyn Walkden about letters in the papers from 'former members of the Peace Pledge Union, and others who have been unfavourable to the national war effort, and is it not doing harm to the nation to keep on preaching such nonsense in local papers?' *Parliamentary Debates*, H. of C. 5th series, vol. 377, col. 1367.

³ There is an account of these activities in Miss Vera Brittain's autobiography, *Testament of Experience* (London, 1957). The 'Food Relief Campaign' was closely associated with another small organization, the 'Bombing Restriction Committee' to 'resist the cruelties imposed by bombing and blockade' (pp. 296-7; 299-303).

⁴ Roy Walker, *Famine over Europe, the Problem of Controlled Food Relief* (London, Dakers, 1941). With an Introduction by John Middleton Murry.

defined as the obtaining of authoritative information as to food conditions in German-controlled or invaded territories, and the promotion of schemes for sending food, vitamins, and medical aid into such countries wherever control was possible. It was chiefly a committee of the churches, but welcomed the cooperation of organizations and groups in sympathy with its aims. Its chairman was the Bishop of Chichester. It was careful to keep itself free from pacifist associations, and in the Ministry's view 'its main thesis is not readily open to criticism on simple grounds of economic warfare though the committee is plainly unaware of the practical difficulties of securing an adequate control or limiting a concession once made'.¹

(v)

United States reactions, 1942-3

The Greek scheme remained the one major relaxation of the blockade for relief purposes throughout the war. There was no substantial change in the relief position during 1943; both the British and United States Governments were agreed that it should go no further, and Mr. Roosevelt usually appeared as determined as Mr. Churchill that there was no case for minor concessions which might lead to major infractions. In both countries it was recognized that in addition to some measure of intransigent political pacifism there might be among less extreme pacifists an unwitting tendency to substitute efforts to reduce the incidence of the blockade for efforts to beat the enemy and free the conquered peoples. In the United Kingdom the relief campaign was never a challenge to the Government. In the United States it always appeared likely to cause the Government some embarrassment in the field of domestic politics, although the Administration does not appear to have been unduly concerned before 1944. During 1942 and 1943 indeed Mr. Hull frequently insisted that the blockade must be maintained in its full rigour, and in the autumn and winter of 1942-3 he even showed some concern lest the British Government should win the favour of the European allies with a more generous policy than that of the United States.

This was because the proportions of relief inside the blockade had not been fully understood by the political side of the State

¹ In the Ministry's files for 1942, 1943, and 1944 there are numerous letters and minutes of meetings between representatives of the Ministry and the Famine Relief Committee. Although the Committee claimed to be working with and not against the Government its views were not accepted by the Ministry, but the difference between them was essentially one of fact. The Ministry considered that the word 'Famine' in the Committee's title was in itself grossly misleading.

Department, and Mr. Hull expressed surprise in October 1942 at the extensive nature of the parcel and other schemes to which the British had assented. The most important of these was a Belgian arrangement to make bulk purchases up to £250,000 a month in Portugal,¹ facilitated by the Belgian Government's resources in gold from the Congo. The British embassy was able to point out that full details of all these schemes had been reported to the economic experts of the State Department, and this was fully admitted later. Some suspicion that the British had outsmarted their American allies seems to have lingered. Early in December 1942 the President himself seemed to have abandoned the State Department's anti-relief policy when he spoke sympathetically to the Norwegian ambassador in Washington about an experimental parcel scheme, and the ambassador publicly announced this fact, remarking that there was 'not even a herring in Norway'. Later in the month he quoted the State Department as saying that the scheme would have to be abandoned because of British opposition; but the State Department denied that it had made this statement. The Ministry had in fact agreed that the Norwegians should be allowed to import secretly via Sweden about 100 tons of concentrated foodstuffs and vitamins which would be shipped to Sweden from overseas by Gothenburg ships. It appeared that the State Department was embarrassed by the intervention of the White House, and inclined to do nothing about relief for some weeks; in the meantime little could be done about prisoner-of-war shipments and relief purchases by the Allies inside the blockade area.²

However, the appointment of Governor Lehman to take charge of post-hostilities relief and any possible wartime measures brought new vigour into American policy, and with a large staff inclined at first to press for the extension of relief through the blockade he was soon plunged into fresh discussions of the problem from all angles, culminating in a visit to London. He held two meetings on 19th and 22nd April 1943 with members of the Ministry of Economic Warfare and it was agreed that a small committee might be appointed to examine the possibility of a relief scheme on a small and experimental scale in the autumn. By this stage the Governor was well aware of the practical difficulties of such plans; he recognized that any concession would lead to pressure for its extension, and that the supply situation would accordingly have first to be very carefully examined. However, the War Cabinet flatly rejected this innocuous plan on 3rd May 1943. It could see no grounds for a change of policy, and it could not therefore agree to British participation in any further

¹ In September the Belgian Government had been told that *all* Belgian purchases in Sweden, Spain, and Portugal must be limited to this monthly figure.

² The illness of Mr. Breckenridge Long, the Assistant Secretary in charge of relief questions, also delayed matters during January 1943.

examination of the matter. This was probably an error of tactics, for the investigations of the committee would have shown that the shortage of ships and supplies made extensive relief impossible. It would now be easier to saddle Great Britain with the onus of having refused relief. The decision seems to have upset Mr. Lehman, who was prepared to accept the finding of the committee and had persuaded Mr. Hull to do the same. However, the difficulties were substantially reduced by the arrival of the Prime Minister in Washington; on the request of the British embassy (15th May) he spoke about relief problems with the President and in a telegram of 25th May indicated that he and the President were in complete agreement with regard to the maintenance of the existing policy. Mr. Hull told Lord Halifax that the American Government would recognize the British as having primary responsibility in deciding blockade matters and would associate itself with these decisions. But the embassy took care to warn Lord Selborne that there could be no finality about these arrangements; most of Mr. Hull's immediate advisers still seemed to be in favour of devising plans for civil relief and were constantly pressing both the President and Mr. Hull to change their policy.

These efforts had some success in 1944, but they came too late to injure the blockade. The Greek relief plans of 1942 remained the one substantial exception to the firmly established principle that a belligerent power must accept responsibility for the well-being of the people it has conquered.

CHAPTER X

SPAIN

(i)

The policy of economic aid

THE problems of the Western Mediterranean arena were, for both Great Britain and the United States, primarily political and strategical; both powers regarded economic assistance to Spain, Portugal, Vichy France, and French North Africa as a means of strengthening and increasing resistance to Axis influence and of facilitating Allied military action later in the war. The economic-warfare objectives of contraband-control and pre-emption were of sufficient importance to make a substantial contribution to the defeat of the enemy in their own right, but they could not be regarded as ends in themselves even in the economic field. Apart from the possibility of a British or Anglo-American landing in North-West Africa, a clear pointer to the need to create local goodwill, there was reason to think that each government in this area would be more able and (perhaps) more ready to stand up to Hitler if its bargaining position were strengthened by Allied economic help. This policy of economic aid had its first and boldest example in British policy in Spain in the winter of 1940-1. It had an American counterpart in Roosevelt's relief programme in France (which was, however, as much a gesture to humanitarian sentiment in the States as a bid for French goodwill) and, more clearly, in the sending of supplies to French North Africa in 1941.

In the application of these policies of economic aid the two governments had no basic difference of purpose. Both could see the danger that a too lavish supply programme would defeat the primary blockade objective by creating a surplus of goods sufficient to allow re-export to the enemy or to tempt the enemy to invade. From time to time each government suspected the other of taking undue risks; to the British it seemed that the State Department was altogether too optimistic about Weygand's ability or willingness to cooperate in 1941, and the State Department was niggardly with oil supplies to Spain during the first half of 1942, suspecting that the British were too ready to shut their eyes to Franco's connivance with the Axis. If the outlooks of both governments were coloured in some measure

by past experience and by circumstances which had started each on different paths to the same goal, it was nevertheless the case that both were working in some measure in the dark. Post-war information confirms, on the whole, the British judgment in these matters. Franco was genuinely separating his cause from that of the Axis; Unoccupied France and her dependencies could not do so even if they wished. With the Royal Navy preoccupied with tasks elsewhere, the supply route from North Africa to Marseilles remained open; American supplies to French North Africa were being poured into the biggest gap in the blockade. The over-riding strategical purpose asserted itself however in July 1942 when operation TORCH was decided upon; from this point it seemed better to take blockade risks in order to create some local goodwill before the Allied landings. Politically Portugal was less of a worry, and her determination to satisfy Germany's economic demands resulted in readier Anglo-American agreement than in the other two areas.

Let us look first at the development of British policy in Spain. The twelve months ending in July 1941 had been a period of intense strain for British representatives in Madrid, and of unceasing effort on the part of the British Government to keep Spain out of the war. After he had been in Spain for just over a year Sir Samuel Hoare wrote on 11th June 1941, in a despatch to Mr. Eden:

I had come on what was really a purchasing mission for the purpose of buying time—local time for the fortification of Gibraltar and world time for British recovery after the French collapse. Thirteen months ago it looked very much as if there was no time to buy. Somehow or other the months have passed and the raw material that we were so anxious to purchase has been found . . .

Time had been gained by a policy of economic and financial aid for Spain, a policy which was believed to have played no inconsiderable part in the maintaining of Spanish non-belligerency.¹ But the position was still critical. The German attack on Russia in June 1941 led many Spaniards to expect an early German victory in the east and a peace offensive against Britain, and there were persistent rumours of a possible Germany entry into Spain in the near future. These developments culminated in Franco's 'ill-tempered speech' of 17th July, which expressed unqualified confidence that the war was already won by the Axis, warned the United States off Europe,

¹ This policy was based on the Anglo-Spanish war trade agreement of March 1940, and the various credit agreements that followed. See E.B., i, 539-42, 545. They were negotiated by Mr. David Eccles, economic adviser to H.M. ambassadors in Lisbon and Madrid, 1940-2. The general situation is sketched in the memoir by Lord Templewood (Sir Samuel Hoare), *Ambassador on Special Mission* (London, 1946), pp. 102-29. His letter to Mr. Churchill of 26th February 1941 enclosing notes of conversations with President Roosevelt's representative, Colonel William Donovan, sets out the arguments for 'regulated help on a generous scale' (pp. 107-10).

and denounced both the 'inhumane blockade of the whole continent' and the alleged attempt of 'North America' in 1940 to put political pressure on Spain by withholding supplies of wheat. These ostentatiously pro-German pronouncements provided ample excuse, if such were needed, for a more rigorous policy towards Spain, and this policy would have to be adopted in any case if Spain were really to cooperate wholeheartedly with the Axis powers. Sir Samuel Hoare came, however, to the conclusion that Franco did not fully understand the speech which he had been given to read, and that in any case he was speaking with the set purpose of ingratiating himself with Hitler. He believed that 'the wise policy is still to ignore incidental irritations and future forebodings, and to continue our plan of wisely controlled economic help', and in the end this policy prevailed. But progress, in face of all the political complications involved, was often heartbreakingly slow.

There were by this stage two reasons for the policy of 'wisely controlled economic help'. The first was that the economic situation in Spain was still grave; food remained scarce and the decline in the value of the peseta was affecting all classes in the country.¹ If supplies were not forthcoming, at least in some reasonable measure, from overseas, the Spanish Government might be driven into full collaboration with the Axis, however distasteful this course might be to individual Spaniards. But the Germans were finding it difficult to send supplies, in spite of their promises.² Owing to the war the British Government had had to abandon some of the traditional British purchases in Spain, such as fruits, vegetables, and wine, and this, together with the economic dislocation resulting from the Civil War, had made it impossible for Spain to produce enough to pay for the goods she needed. The loans of just over £4,000,000 which had been granted by the British Government had been intended to assist reconstruction and finance in part the liquidation of the old trade debts to British creditors. In 1941, however, Britain was able to close the gap by taking supplies of such goods as mercury and iron ore, and the Spanish Ministry of Commerce was finding that in spite of the war the British were making it possible for Spain to receive the goods she needed from outside Europe. The maintenance of the policy of supplying Spain seemed necessary therefore in order to relieve the more acute distress, to create a feeling of dependence on British economic resources, to prevent full Spanish membership of the New Order, and to embolden the Spanish Government to refuse supplies to Germany without a satisfactory *quid pro quo*.

¹ Cf. Higinio Parío Eguilaz, *La Expansión de la Economía Española* (Madrid, 1944), pp. 159-95.

² The Hitler-Franco correspondence on this point in February 1941 is given in *The Spanish Government and the Axis* (Washington, 1946), pp. 30, 31, 34. R. Serrano Suñer, *Entre Hendaya y Gibraltar* (Madrid, 1947), pp. 242-7.

The second reason, which was becoming equally important after the summer of 1941, was the increasing need for pre-emptive purchasing in Spain. Throughout 1940 and the early months of 1941 the selection of supplies had, for the reason stated above, been more important than the actual volume of trade. Although Spain was clearly within the blockade area, the blockade had hitherto been enforced only by the rationing of imports and by the obtaining of suitable undertakings against re-export. It had not been found possible to deprive the enemy of Spanish products, although on the other hand there had been no clear evidence that the Germans were obtaining many products from Spain of which they were in short supply. These products however now became of vastly greater interest; Spain had potential supplies of wool and skins which would provide warm clothing for the German armies in Russia, and after December 1941 she also became an important source of supply for goods formerly obtained in the Far East. These included wolfram, lead, and zinc as well as olive oil, woollen goods, skins, and mercury, all of which the Germans had been in the habit of buying both during and after the Civil War.

It was now necessary therefore not merely to maintain an adequate flow of supplies but also to use it as a means of facilitating purchases. The two programmes were interdependent: the Spaniards had growing sterling resources and it was highly probable that unless they could convert these into goods they would put every obstacle in the way of further Allied purchases. Spanish requirements could not, however, be fully met from British and Empire sources and it was for this reason that American assistance was essential.

The main problem therefore, after the British Government had made up its mind to persevere with its cooperative economic policy, was to persuade the United States Government to adopt a more liberal policy, and this, in view of the not unnatural exasperation in Washington at the behaviour of Señor Serrano Suñer, the Foreign Minister, was not easy. In principle the United States Government accepted the British view that economic inducements should be given to Spain in order to wean her from the Axis, but there was much indecision in Washington as to how this policy should be applied. The calculated rudeness of Suñer towards the American ambassador, Mr. Alexander C. Weddell, had led to a suspension of American plans for supplying Spain, and in particular to a slowing down of oil deliveries, and although this was intended merely as a means of bringing the Spanish Government to its senses it seemed likely to have the effect of strengthening Spanish obstinacy.¹

The Foreign Office told Sir Samuel Hoare on 17th August 1941

¹ Cf. Suñer's comments on Weddell: *Entre Hendaya y Gibraltar*, pp. 272-5.

that while it was generally agreed that Spain must be enabled to utilize her sterling resources, 'our own interest must be the governing consideration in every commercial and economic transaction with Spain and every transaction should be examined from this point of view'. Subject to these considerations the British Government was prepared to sanction Spanish purchases of cotton from some source of supply under British control, tobacco and linseed in South America and hides in Nigeria, and to maintain offers already made of coal and coke. Owing to the Allied supply position, however, no copper, tin, sulphate of ammonia, or rubber could be made available and the Ministry of Food required the total output of Uruguayan tallow. On 9th September the British ambassador and commercial counsellor had a long interview with Señor Demetrio Carceller, the Spanish Minister of Industry and Commerce, in which it was made clear that the British and American Governments required reassuring as to the attitude of the Spanish Government if they were to continue to facilitate supplies. The Minister's reply was that Spain must be judged by deeds and not by words. As to deeds, practically no supplies were being sent to Germany. Of 60,000 tons of olive oil demanded by the Germans only 15,000 had been promised and only 5,000 actually supplied. He himself had told the Germans during a recent visit to Leipzig that Spain needed its commodities for itself. Consequently, as Spain could not satisfy Germany with deeds she had to satisfy her with words—speeches and propaganda. Franco was not Germanophil but Hispanophil and determined to avoid German domination. These facile assurances had their value: it was something that the Spaniard troubled to make them at all. But was Britain, too, being given words and not deeds? Sir Samuel Hoare's reply was cautious. But he again pressed the Minister to facilitate British purchases in return for Allied supplies to Spain and offered to do his best to secure American cooperation.

These and other indications that the Spanish Government—or some elements in it—were anxious to explain away Franco's speech of 17th July and to continue to develop economic relations with the Allies made it nevertheless worth while for the British to go ahead, and in November proposals for a joint Anglo-American economic campaign in the Peninsula were laid before the State Department in Washington. The three main objectives of such a combined effort would be (1) to make the Western Mediterranean countries independent of Germany; (2) to obtain goods required by the Allies on both supply and purchase grounds, in return for supplies from Anglo-American sources; (3) to increase Allied influence in the area by the infiltration of 'personnel and propaganda'. Proposals were also made for a joint Anglo-American Supply Board to carry out the policy,

although there was considerable doubt in M.E.W. as to whether the United States Government would agree to this.¹

Before examining the course of the supply-purchase negotiations during the early months of 1942 a word must be said about two commodities which provided the chief bargaining weapons on both sides. These were wolfram and petroleum: Spain was determined to withhold licences for the export of wolfram in order to secure certain imports (rubber in particular); the United States held up the granting of export licences for Spanish tankers in American ports, partly at least in order to secure Spanish compliance with American economic demands.

Petroleum imports into Spain were still governed during 1941 by the Anglo-Spanish oil agreement of 1940.² These imports however reached Spain and Portugal from sources in the Americas, and the United States ownership of Latin American refineries, combined with British navicert control, made it possible for the United States Government to impose a complete embargo on exports to the Peninsula. All petroleum products became subject to United States export licensing on 20th June 1941, and such licensing became effective for Spain on 1st August. Owing to the world tanker shortage rationing was introduced into the Atlantic seaboard states of the United States in order that tankers formerly engaged in the American coastal trade could be made available for British requirements, and the decision was taken to withdraw United States tankers from supplying the Peninsula. Thus by the autumn of 1941 Spain was left with only her own tankers—barely sufficient to supply her minimum internal requirements—and there was no free tanker tonnage flying neutral flags. The situation was worsened by the action of the United States authorities in August in holding up licences for three tankers—*Remedios*, *Campilo*, and *Campeche*—under the new regulations. The United States Government could also advance supply reasons for not granting export licences automatically to exporters holding British navicerts, and accordingly the British three-monthly rationing quotas were no guarantee that Spain would in fact receive the rations which the British had agreed that she needed. The oil agreement of 1940 was renewed for the last two quarters of 1941, but not without considerable difficulty. An import programme based on the available tonnage was drawn up, under which CAMPSA's agreed total imports of 221,916 tons of refined products were reduced by tanker limitations to 173,482 tons; of this CEPSA were to provide 54,200 tons. In

¹ H. Feis, *The Spanish Story: Franco and the National War* (New York, 1948), is a first-hand account of United States policy by the former Economic Adviser to the State Department, who was closely connected throughout with the Spanish negotiations. A reference to these proposals (p. 167) shows that M.E.W. was right in assuming that the State Department was not ready for so comprehensive a programme at this moment.

² E.B., i, 536-8.

the last half of 1941 imports, consumption, and stocks of petroleum products amounted to:

<i>3rd Quarter</i>		<i>4th Quarter</i>	
Imports . . .	120,149 tons	Imports . . .	82,936 tons
Consumption . . .	138,152 tons	Consumption . . .	114,252 tons
Stocks, 30th September . . .	70,387 tons	Stocks, 31st December (estimated) . . .	39,071 tons

Meanwhile, strong representations were made to the State Department by the British embassy in Washington in an endeavour to secure export licences for Spanish tankers held up in American ports. Delays, however, continued for some months; at first these seem to have been due to genuine administrative difficulties, but later to the American desire to 'bring home to the Spaniards the possible consequences of their failure to mend their ways'. By the end of October 1941 the political situation had somewhat improved¹ and two licences were granted, but delays continued in many cases. In November the State Department made it clear that it was prepared to work out an agreed programme of oil imports for Spain only if this were tied up tightly with a system of control and supervision under American observers, and with far-reaching guarantees by the Spanish Government as to its general economic position *vis-à-vis* Germany. By the end of the year Spanish stocks had reached a dangerously low level. The restrictions on consumption had already damaged Spain's internal economy and by the beginning of 1942 it had become imperative that the Ministry of Economic Warfare should agree as soon as possible with the Americans on a programme based on reasonable requirements.

By the end of 1941 however the Spanish Government knew that it had an excellent bargaining weapon of its own in the Allied desire for wolfram. With all the other wolfram deposits in the world located on or near the Pacific, it was clearly of the utmost importance to preclude Germany from an overland source of supply so convenient as the Iberian Peninsula. During 1940 and the greater part of 1941 there had been little competitive buying of this commodity by the British in Spain. Germany had been getting supplies elsewhere, including sealed cans in transit through Russia from Japan, and the British did not wish to upset Portuguese prices or to stimulate Spanish production, which was at that time very small. There was, however, growing uneasiness in London at this inactivity; an investigation was accordingly carried out by the U.K.C.C. and the report reached M.E.W. in December 1941.

This showed that the main source of Spanish supply was from mines in Galicia (largely in the three provinces of La Coruna,

¹ Feis, *ibid.*, pp. 138-43.

Pontevedra, and Orense), although several mines of varying importance in the western Salamanca area had recently been brought into production. There were also the Montoro Mines in Cordoba and a few small properties in the province of Caceres, which were worked by groups of peasants for their own account. The three principal concessions in operation in Galicia had an approximate monthly production of 55 tons. The most important wolfram property in Spain, the Minas de Silleda concession, was one of this group; the lessee of the property had offered the entire production to British interests in Madrid a year before without success, and had then sold the whole output under his production to the Germans and Italians for the duration of the war. A second group, the Minas de Villar de Ciervos y Villardebos, was worked by a German-controlled company; a third, the 'Monte Neme' group, owned by Sr. Abelenda, had been leased in part to German interests, but as a result of legal proceedings for breach of contract the Germans had ceased to operate on 5th April 1941. Other wolfram mines in Galicia produced 5 tons a month. The Montoro mines produced 2 tons a month. The report estimated that the monthly production, in the light of investigations in October 1941, was at the rate of 100 tons of dressed wolfram a month. It seemed probable that only a small portion of this output had reached enemy hands during 1941. On the other hand practically the whole production (perhaps 700-800 tons) had been taken by the Germans. All mines in operation in Spain were required by law to file a monthly production return with the Direccion General de Minas, although it seemed that they did not declare their entire output. But according to the official statistics it was clear that the greater part of the amounts notified were mined by Germans or delivered to German and Italian interests in Spain.

This and similar evidence finally convinced the Ministry of Economic Warfare that the pre-emption of wolfram in Spain had become a matter of urgency. The Germans soon showed that they were willing to enter into a competitive struggle, often to the point of desperation. By January 1942 the U.K.C.C. had been instructed to buy all the wolfram it could get, but few export licences were obtainable and occasionally smuggling was resorted to at a fee of £1,000 per ton. This, even with prices between £2,000 and £3,000 per ton, still left the cost of Spanish wolfram lower than the Portuguese, but it was recognized that only small quantities could be dealt with in this way and that to obtain satisfactory results a general trade agreement with the Spanish Government was necessary.

The necessity for an intensified economic-warfare campaign in the Peninsula was also emphasized by evidence which reached the Ministry in the summer of 1941 of the efforts which the Germans were making to organize the flow of contraband goods from Spain

through SOFINDUS (*Sociedad Financiera e Industrial*). It had long been suspected, and was now proved, that this company was the German official state trading organization in Spain. SOFINDUS was responsible for the organization of transport and for extensive purchases not only of zinc blende and iron ore from the north of Spain but also of goods such as leather, boots, tropical tents, and cotton goods the export of which from Spain was illicit under the War-Trade Agreement and the Cotton Agreement. The most disquieting feature of these new developments was the extension of sea transport routes. French, German, Italian, Danish, Dutch, and Spanish ships, mostly of small tonnage, were known to be plying regularly between Bilbao and Bayonne and from Barcelona to Marseilles, Genoa, and Savona. There was also evidence of the transport of military supplies to the Germans and Italians in North Africa from Spain via Naples. An indication of the scope of these activities is given by figures of ships employed in transporting SOFINDUS purchases. Approximately twenty ships with a total tonnage of about 5,000 tons were engaged in the transport of iron ore from Bilbao to Bayonne; a further eighteen ships with a total tonnage of about 20,000 tons were known to be sailing between Spanish Mediterranean ports and ports in Italy and France; and SOFINDUS was at the same time trying to acquire or charter a further fourteen or fifteen ships with a tonnage exceeding 30,000 tons.

In July 1941 Sir Samuel Hoare was asked to warn Sr. Carceller that the Ministry intended to do everything possible to hamper the operations of SOFINDUS: all facilities would be withheld from any persons, firms, or organizations which had dealings with it, and in the case of imports into Spain any connexion between SOFINDUS and the consignee would be regarded as *prima facie* evidence of enemy destination. In August 1941 three Spanish ships carrying pyrites for the enemy were seized. There were various suspicious circumstances in these cases but hardly sufficient evidence to justify seizure until SOFINDUS unwittingly provided the necessary proof of enemy destination. It was known that the Germans had some hope that release would follow the 'energetic representations' which the Spanish authorities were alleged to be making. In fact the Spaniards made no protest at all about one of the ships, the *Berga*, and only a despondent semi-official enquiry about the possibility of securing the release of the other two. In September an offer was made to the Spaniards for the release of the two latter ships in return for an undertaking from the Spanish authorities that in future no pyrites would be shipped from Huelva or Malaga, even to another Spanish port, without the prior consent of the British. There was no question of the release of the *Berga*, as it was actually sailing to an enemy port when intercepted. It was not until December that the Spanish

Government agreed to the British terms; instructions were then sent to Gibraltar that the ships could be released as soon as the cargoes had been unloaded.

This then was the background of the discussions for a comprehensive Anglo-American economic agreement with Spain, which after displays of considerable obstinacy on both the Spanish and American sides came fully into operation in July 1942 in the shape of the joint Supply-Purchase programme. The British Government had abundant sympathy with the American reaction to the exasperating behaviour of the Spaniards. It was convinced nevertheless that the war effort and the Spanish character necessitated persuasive rather than coercive methods.¹ As the British now wished to enter the Spanish market for all types of goods on equal terms with the Germans, and to receive export licences for their purchases, they were asking the Spanish Government to make decisions openly favourable to the Allies. By the end of 1941 the Spanish Government had acceded to the British desire to modify its traditional trade in this way, and the result—whether viewed from the political or the economic-warfare angle—seemed to the British embassy to be one to encourage in every way. To keep the Spanish Government to this policy, in the faces of inevitable Axis reactions and the opposition of the Foreign Minister himself, would not be easy; the *sine qua non* of success was the continued flow of supplies from overseas.

(ii)

Supply-Purchase (December 1941–June 1942)

From November 1941 to February 1942 the working out of the supply-purchase programme made extremely slow progress owing to the conflict of views in Washington. The entry of the United States Government into the war and the inevitable congestion of work and large-scale administrative readjustments held up decisions; the rivalry between the State Department and the Board of Economic Warfare was a further complication, but the main factor seems to have been Mr. Hull's fear that a German occupation of Spain was imminent. The British authorities suspected that the United States ambassador in Madrid, Mr. Weddell, had a very imperfect grasp of the economic situation and was in any case so infuriated by the behaviour of Suñer that he found it difficult to press the case for cooperation with Spain with much conviction. In holding this

¹ Cf. the comments of F. Piétri, the French ambassador, *Mes Années d'Espagne, 1940-1948* (Paris, 1954), p. 80.

opinion, however, they seem to have done him an injustice.¹ The Spanish issue was one which had created a genuine cleavage of opinion in the States, not only in the press and in the public at large, but in the government itself. Mr. Hull was believed to be 'personally sticky on Spain' and there was in some quarters an almost morbid dislike and fear of anything that could be called 'appeasement' and a conviction that toughness was all-sufficient. What happened then was that the United States Government, after deciding in November to develop trading relations with Spain, presented its proposals with such a mixture of suspicion and reserve as to prevent any real progress for some time.

Carceller had been doing his best since July 1941 to persuade Weddell not to take Suñer's tantrums too seriously. The State Department decided in November to work out an agreed programme of oil imports for Spain as part of a general scheme for Spanish-American trade; as far as oil was concerned the plan visualized a system of control and supervision in Spain by American observers. The Ministry on 11th November expressed hearty welcome for the plan, and Sir Samuel Hoare also welcomed it, although somewhat less enthusiastically and with the reservation that 'great tact' would be necessary in its application. On 29th November the State Department handed to Señor Cardenas, the Spanish ambassador in Washington, a memorandum on the development of Spanish-American trade, the main condition of which was to be a complete guarantee by Spain against re-export to the enemy.

It must be agreed, for example, that petroleum products supplied will not be made accessible by Spain to foreign shipping or aircraft, except of American nations or of Great Britain or of countries which, in alliance with Great Britain, are at present resisting aggression.

It was proposed to maintain a strict control over oil supplies and American agents were to be appointed and given 'free access to all Spanish facilities for receiving, shipping, storing, and refining petroleum products'. CAMPSA and CEPESA would be required to furnish monthly reports giving details of all deliveries of petroleum products, sources of supply, consumption and inventories, detailing every type of product by region. Monthly reports would also be required setting forth the movements of all tankers engaged in the transport of petroleum products in the Spanish trade, regardless of whether such vessels were in the operation and control of Spain, with a full description of cargoes, names of vessels, ports of call, and dates of entering and clearing these ports. With regard to other products, 'the endeavour will be made to supply Spain's requirements subject to a faithful compliance with the foregoing general condi-

¹ Feis, *op. cit.*, pp. 152-3; F. Piétri, *op. cit.*, pp. 124-5.

tions'. With regard to Spanish products, the American memorandum continued:

It is also the desire of this government to obtain for this country certain specific Spanish products, and the continued supply to Spain of American products, including petroleum products, will be conditional upon the agreement of Spain to make available to this country the following items in significant quantities:

Mercury	Tungsten	Zinc concentrates
Tin	Lead	Olives
Olive oil	Fluorspar	White squill
Uva urisi leaves	Horehound leaves	Chamomile leaves
Ergot	Gentian root	Psyllium seed
Colchicum seed	Aconite root	

The British embassy in Washington thought the memorandum 'definitely brusque in places' and doubted whether it would be well received by the Spanish Government. Nevertheless it seemed a step forward: the policy of economic collaboration with Spain could be continued only if some kind of barter trade were adopted and the memorandum showed that the principle of barter was already implicit in United States policy. The extension of the war to the Pacific in December and the increased pressure on shipping at once gave the Peninsula a new importance as a source of supply both to Britain and America; iron ore, mercury, wolfram, tin, zinc, cork, and citrus fruits were amongst the goods required and prices were rising steeply. On 19th December a Foreign Office telegram to Washington urged the U.S. Government to continue to send supplies to Spain and to refrain from making exacting demands.

There was complete confusion in Washington for the moment over the next step. Oil shipments continued to be held up, and with rapidly dwindling stocks Spain was drifting nearer to economic chaos. The memorandum had been presented to the Spanish ambassador only as a draft and had been discussed with him purely from the point of view of wording; the State Department had then changed its mind and decided that it should after all be presented to the Spanish Government through Mr. Weddell in Madrid. The Spanish ambassador was accordingly told to take no action (although he had said that his Government was prepared to supply the oil information) and some weeks went by with no further move. Certainly Spanish conduct—as shown for example in the organized attack on the British embassy in Madrid in June 1941¹—had been provocative in the extreme, but this provocation came from those Falangist elements which were opposing the closer economic ties with the Anglo-American world desired by the Ministry of

¹ Templewood, *Ambassador on Special Mission*, pp. 114-71.

Commerce, and to react by severing these ties was simply to play into Suñer's hands. This view the State Department had apparently accepted by the end of December and a hint was given to the British embassy that progress could best be achieved by Anglo-American talks at the highest level. The matter seemed sufficiently urgent to justify a request to the Prime Minister to speak to the President on the general strategical and political importance of continuing to give Spain some measure of assistance, and this Mr. Churchill did during his visit to Washington in January.

The State Department's memorandum was at last sent to the United States ambassador in Madrid on 10th January 1942, and was presented to the Foreign Minister, in a slightly modified form, on 14th January. It was, in Sir Samuel Hoare's words, 'harsh and schoolmasterly in tone' and soon found its way to the German embassy, which was delighted at any opportunity to upset Anglo-Spanish relations. The first reading of the memorandum put Carceller in a bad state of nerves; he told the British that he would have been willing to make any private arrangement he could to satisfy the United States Government, but that this had been made difficult by the fact that the document had been delivered to Suñer. However, on 23rd January he undertook to accept the American memorandum in principle, and expected the release of the two tankers which had been held up since November 1941. But on the 24th the State Department introduced a new condition—that one of the two ships should be chartered to Portugal. When the Spaniards protested that this was impracticable they introduced yet another new factor by saying that the *Campechano*, a third ship, must be chartered to Portugal. The Spaniards were ready to consider this proposal, but pointed out that as the chartering would have to be arranged between CAMPSA and Portugal this would take time and in the meantime it was essential to have the two tankers. The State Department then changed its ground again and substituted for one of the two original ships another ship which was not carrying the type of oil most urgently needed and would take considerably longer to arrive in Spain. The Spanish Government was prepared to accept but was then told that there would be no oil at all unless the Spanish goods needed by the United States actually arrived in American ports in Spanish bottoms. The Spaniards pointed out unhappily that the Germans had threatened to sink at sight any Spanish ship carrying war materials to the Allies.

The State Department's distrust of the Spanish Government was kept alive by rumours and reports, often exaggerated and the result of German propaganda, that Spanish tankers were refuelling German submarines at sea; and there was anger amongst the families of tanker crews living in the Gulf ports at the sinking of Allied tankers

off the American coast. Torn by suspicion and dislike of the Spanish and their policies the United States Government was without a clear purpose, and reluctant to trust her more experienced ally. Lord Halifax on 4th February suggested that the British Government should make some gesture, both to show independence in pursuit of its Spanish policy and to indicate to the Americans the importance attached to that policy. However, the State Department on 7th February decided to release three tankers with cargoes for Spain, and announced that Spain would continue to get quantities of oil sufficient to keep the economic life of the country going, provided that the recent assurances that no oil would be re-exported to Germany were observed. A competent man to deal with oil and other economic questions was to be sent to Madrid. A dispute then arose over the question of American observers; the Spanish Government objected to the observers sailing on board tankers, on the grounds that it would make the ships liable to attack by German submarines. Eventually the Americans agreed and by 20th February the tankers had sailed without the observers.

As long as the United States Government continued to withhold oil supplies the British programme for a comprehensive barter deal with Spain could make little progress. Detailed plans were worked out in London, and preliminary discussions on the programme for the first six months of 1942 took place between British and Spanish experts in Madrid during January.¹ One problem was to meet the increasing cost of purchases, swollen by the high Spanish prices which were considerably in excess of the world price-level. The sterling payments to be made by Spain during these six months were expected to reach a minimum of £5½ million including amortization of the loan, old debts, etc. Of this sum roughly £2½ millions would be paid for by normal Spanish exports including oranges, iron ore, apricot pulp, cork, and miscellaneous goods. The Minister of Commerce was accordingly asked to give export licences for £3,000,000 worth of indigenous products in order to pay for cotton (36,000 tons), copper sulphate, Egyptian cotton (2,125 bales) and a large proportion of agreed exports of coal and coke. If possible, this £3,000,000 worth of Spanish products was to be made up of 'exceptional wartime exports' such as potash, zinc, lead, woollen goods, mercury, and wolfram. Carceller agreed to consider the plan, provided that he was promised 2,000 tons of rubber and 600 tons of tin. He claimed that he would have to face considerable political opposition but that he was prepared to do so if he could obtain these materials essential

¹ They were conducted on the British side by Mr. Hugh Ellis-Rees, the Treasury representative, who had at first held the position of financial adviser to the embassy but was then charged by Sir Samuel Hoare with responsibility for all the wartime economic activities of the embassy. Templewood, *ibid.*, p. 133.

to the Spanish economy. But all this was dependent on American action, for the Spanish Government continued to refuse export licences for British purchases until it obtained the materials it needed—chiefly petroleum and wheat—from the States. Meanwhile Britain could not export goods already bought, could not obtain pesetas through the clearing, and consequently could not go ahead with the proposed large-scale pre-emptive buying.

The American decision on 7th February to release the three tankers meant that the deadlock had at last been broken. On 10th February it was known that the State Department agreed as to the desirability of a joint purchasing programme for Spain, to include wool, sheep skins, wolfram, tin, and mercury. As a start it proposed the acquisition of the following materials, on combined account and on equal terms: wool, 7,000 tons at \$700 per ton; sheep skins, 500 tons at \$285 per ton; wolfram, 250 tons at \$20,000 per ton; tin, 50 tons at \$2 per pound; and mercury, 5,000 flasks at \$250 per flask. The cost for the United Kingdom and the United States together would therefore be \$11,492,000. This was a considerable step forward, but the total expenditure suggested for the joint programme was no greater than that allowed for in the Anglo-Spanish programme already worked out.¹ The Ministry accordingly proposed a more ambitious joint-programme for some £17,000,000 under which wool, sheep skins, and wolfram would be purchased for pre-emptive reasons. The United States offer to share equally costs of pre-emption in the Peninsula was also accepted.² Thus it seemed that things were moving in the right direction, although the Americans for some months were still too suspicious of Spanish intentions to commit themselves wholeheartedly to the supply-purchase programme.

The British embassy in Washington had a pretty clear understanding of the perplexities of their American colleagues, although they could not be certain that any particular decision was of more than a stop-gap character. Thus an interim 90-day programme for oil supplies was drawn up and explained to the Spaniards early in March, but was then held up owing to another dispute over tankers. We know now, however, that the decision announced on 10th February was the vital one. With it went the decision to set up the United States Commercial Company (U.S.C.C.) and the acceptance by

¹ This had included purely pre-emptive purchases of wool (20,000 tons), skins (2,400 tons), and olive oil (50,000 tons), together with 600 tons of wolfram. Feis, *op. cit.*, (p. 160) describes the agreement as 'a thing of loose bits and pieces . . . Inside the State Department it was hard to tell who was doing what. The Secretary did not concern himself with details and the Under-Secretary gave orders only now and again.'

² Although M.E.W. in a telegram to Washington of 2nd April 1941, pointed out that in the long run a division of monetary cost 'is likely to prove itself too artificial a basis for dividing the burden, since what each of us can buy will depend on the goods we can supply'.

Jesse Jones and Clayton of the need for this buying organization for economic-warfare purchases and for the heavier expenditure that would be involved.¹ The hold-up over oil in March was due to a note of alarm from an unexpected quarter. Mr. Atherton and the Petroleum Adviser, Mr. Thornburg, hitherto advocates of oil for Spain, suddenly saw a sinister purpose in the fact that Spain was chartering tankers to Portugal, hurrying on a trade agreement with Argentina, conducting military discussions in Berlin, and perhaps preparing in other ways to join the Axis. But the alarm turned out to be quite false. Accordingly on 20th March the State Department decided that the interim oil programme could go into effect, and at the same time the President authorized comprehensive plans for purchases in Spain and the setting up of the U.S.C.C. which had been drawn up under Mr. Welles' direction. Accompanying this there was set up the interdepartmental Iberian Peninsula Operating Committee (I.P.O.C.), under the chairmanship of Mr. Herbert Feis, to manage the daily details of Spanish and Portuguese economic-warfare business in Washington, and to bring an end, it was hoped, to the complex of ideas and organizations which had hitherto hampered progress. The British were told that in the discussions emphasis had been placed on the need 'to get as much out of these two countries as possible, in order to meet the appeasement argument'. The oil negotiations from this point are dealt with in the next section of this chapter.

The most important problem during February (apart from oil) was rubber, and progress in the Anglo-Spanish discussions was held up for some time owing to the difficulty of finding the 2,000 tons which the Spaniards demanded.² Rubber was in extremely short supply, but the British pre-emption programme in Spain was threatened with breakdown owing to the shortage of pesetas, which could be obtained only by the agreement of the Spanish Government to grant export licences and so enable the U.K.C.C. in Madrid as exporters to reimburse themselves through the clearing, thereby obtaining funds for future purchases. Opportunities for buying were being lost every day. But following strong British representations the C.R.M.B. agreed on 15th March to make the necessary allocation, and the State Department decided to send out Mr. Labouisse, the assistant Chief of the Defense Materials Division, to Madrid for a short visit; a Mr. Joseph had already arrived to cooperate with the U.K.C.C. and a representative of the State Department was to travel to Madrid with Mr. Wyndham White of the British embassy in

¹ See above, p. 54, and the brief account of the origins of the U.S.C.C. in Feis, *The Spanish Story*, pp. 164-71.

² On the background of the rubber shortage see Herbert Feis, *Seen from E.A.* (New York, 1947), pp. 24-71.

Washington. On 20th March Sir Samuel Hoare was able to tell Carceller that the 2,000 tons of rubber would be made available (in quarterly instalments of 500 tons); he reminded the Minister of his former acceptance of the British request for at least 600 tons of wolfram, and the Minister accepted the figure of 300 tons for the current quarter, promising to do his utmost to help by facilitating purchases, export licences, and transport. He also agreed to a request for £500,000 worth of woollen goods, but pointed out that he had prohibited the export of all wool and that he intended to see that no wool left Spain for any destination. A further 1,000 flasks of mercury were to be provided at once.

When the Americans had agreed to the necessity for large-scale purchasing in Spain details of the programme could be worked out. An Anglo-American Economic Committee was formed in Madrid consisting of two members of the British embassy, which also supplied a secretary, two members of the American embassy, and representatives of U.K.C.C. and the U.S.C.C. An officer of each embassy was to be responsible for liaison work between the meetings, which were to be held twice a week at the British embassy. The British and American representatives in Madrid finally agreed to aim at purchasing before 30th June 1942 the following goods, which would include those already provided for in the British programme: wolfram, 500 tons at prices not exceeding \$22,000 per ton for 65% ores; lamb and sheep skins, 1,500 tons at prices not exceeding \$2,500 per ton; mercury, 5,000 flasks at not more than \$250 per flask, and woollen goods to a total of \$4 millions. On 9th April Wyndham White and Labouisse met Spanish Government officials and secured the promise of export licences for the American share of the goods on this list. Licences for the British share had already been promised when the 2,000 tons of rubber were made available. M.E.W. agreed with this plan with certain modifications in the case of mercury and skins. So here was progress: but it was still largely on paper. Further difficulties over rubber and over the supply of petroleum from the United States continued to hold up the grant of licences; additional delay was caused by the German threat to sink at sight any Spanish ship carrying important war materials to the American continent. By the end of June 1942 U.K.C.C. progress reports in respect of commodities of purely pre-emptive value showed purchases of only 198 tons of wolfram, 250 tons of skins, and 30 million pesetas' worth of woollen textiles.

(iii)

I.P.O.C. and Oil

It had been hoped that the United States authorities would speedily put into operation the programme of its own oil adviser in Madrid, Mr. Walter F. Smith, but the inefficiency and evasiveness of the Spaniards once more played into the hands of hostile elements in Washington, and another phase of semi-deadlock followed from May to September.

The State Department's interim programme in February had assigned the following quantities to Spain: petrol 25,000 metric tons, kerosene 1,000, gas oil 20,000, fuel oil 14,000, lubricating oil 3,000. This was to cover a three-months' trial period from February to April. The State Department was, however, still strongly opposed to shipments of crude oils to the CEPSA refinery at Teneriffe, owing to the difficulty of controlling the operation of the refinery and the distribution of its products. After the State Department had got over its scare in March about the Spanish proposal to charter tankers to Portugal it agreed that the 90-day provisional programme should go into operation. Even then the programme allowed only for imports of 50,400 tons until the middle of May, which was considerably less than the British estimate of Spanish minimum requirements for a similar period. The Spaniards were invited to draw up a shipping programme, and this was sent to Washington. At the same time the State Department agreed to send some supplies of crude oil to CEPSA to avoid offending Carceller, who was one of the principal shareholders.

It looked as if the major difficulties had been overcome when suddenly, without warning, Señor Gregorio, the new managing director of CAMPSA (who had taken over in December 1941) announced that on instructions from the Spanish Government his predecessor had been inflating monthly consumption figures of all petroleum products, with the result that the stocks reported by CAMPSA, on which the Spanish programme had been based, were substantially understated. The managing director and Colonel Roldan, the government representative of CAMPSA, attempted to justify the creation of a reserve as an elementary precaution which the Government was in duty bound to take. Colonel Roldan insisted that had it not been for this small reserve Spain would have been entirely out of gasoline by the end of 1941 and he was certain that even in this situation it would have been impossible to persuade the Americans to allow immediate shipments. However the managing director promised that in future the accuracy of the figures would be assured by taking them

direct from the Hollerith machine. Smith did not recommend any major modification of the 90-day programme except the cutting out of 700 tons of lubricants; the United States authorities promptly announced that they intended to stop supplies, but in the end decided on 3rd April to accept Smith's recommendations with the exception of the cargoes of crude for CEPSA.

Then the troublesome question of aviation spirit had to be discussed. CAMPSA had in its possession 5,000,000 litres of 70 octane gasoline which by ethylizing could readily be raised to 87 octane. The State Department instructed Smith to tell the Spanish Government that CAMPSA must not ethylize the 5,000,000 litres in its possession. As it was not proposed to allow further imports of aviation spirit Smith did not consider it possible to impose this condition. Meanwhile the greater part of April went by without any news of an American decision to implement the interim programme.

On 23rd April the State Department authorized three cargoes of products for Spain but asked Smith for information as to time and place of loading, completely contradicting their previous practice of dictating loading places and suppliers. Since CAMPSA had been awaiting the necessary information it had made no arrangements with suppliers and further delays were inevitable. No decision was given with regard to gasoline and the CEPSA refinery, on the ground that at the consumption rate of 8,000 tons stocks were sufficient for the time being. In this the State Department both miscalculated consumption, which averaged 10,500 tons for the first quarter of the year, and ignored the facts, which were (a) that this was the rock-bottom rate based on the uncertain future and involving a partial paralysis of commercial transport, and (b) the seasonal variation in requirements which increased in the summer months particularly for agricultural machinery and the transport of olive oil and other crops.

On 24th April Sir Samuel Hoare telegraphed to the Foreign Office that the withdrawal of all petrol-driven private cars on 1st May was threatened, and a 'full dress campaign against the Americans' was being prepared. On the same day the Foreign Office instructed Lord Halifax to take the matter up on a level which would ensure that the policy which had been agreed between the two Governments was not obstructed by 'comparatively obscure officials'. He replied that the ineffectiveness of the action taken by the State Department during the past months was due not to an intentional indifference to Spanish needs or to any fundamental hostility to the Spanish regime, but to the inability of the officials concerned to comprehend the need for decisive action and to their failure to create an organization really capable of handling detailed arrangements after the general policy had been defined. On the 26th he reported

that the State Department had received a telegram which showed that its previous figures for stocks of gasoline were entirely incorrect, and he had every hope therefore that cargoes of gasoline might shortly be released. He did not in these circumstances propose to make representations at a higher level. On the 27th, at a moment when a Spanish tanker was awaiting a load of gasoline, the State Department held a meeting at which several members of the British embassy staff were present. A memorandum was presented by the British urging prompt action, but Mr. Feis, who was conducting the meeting, stated that two factors had come to light which would necessitate further consideration. Fresh reports had been received from the United States Naval Intelligence Department of the re-fuelling of German submarines by Spanish tankers, and he was also concerned about the unsatisfactory manner in which Spanish export licences were being granted for materials purchased by the U.S.C.C. Eventually the British, supported by Mr. Labouisse who had just returned from Spain, succeeded in persuading him to be satisfied with an urgent request for export licences, but he insisted on referring the Naval Intelligence report to Mr. Welles who in turn referred it to the United States Chiefs of Staff. The Navy did not oppose shipments of oil to Spain and Welles gave orders for the immediate release of the tanker.

The 'death bed repentance' of the American authorities had taken place only just in time. A week earlier the Spanish provinces had been officially informed that devastating restrictions on oil consumption were to be imposed on 1st May, and in some cases the provincial authorities had already acted on these instructions. The Spanish Government had simultaneously arranged for a full-blast publicity campaign against the United States. Constant pressure by the British and U.S. embassies had prevented this at the last minute, and instead a notice had been issued saying simply that world conditions made economy in the consumption of gasoline more than ever necessary. So the efforts of the anti-American section of the Spanish Government, encouraged by the Germans, had been frustrated; the result was probably some increase in goodwill towards Great Britain, owing to the general belief that the British had acted as mediators. But a serious breach had been very near.

The crisis had some important results in the field of Anglo-American organization. As much of the recent trouble seemed to have been due to organizational difficulties on the American side, the Ministry agreed on 29th April, in accordance with the desire of the State Department, that responsibility for all recommendations regarding oil shipments and shipping programmes should be put to the U.S. Government by Mr. Smith, after consultation with the British embassy. Before the end of May there were complaints that

the programme of the Ministry of War Transport and the interests of British firms were being disregarded to the advantage of American firms. A further step was taken early in July when M.E.W. agreed that Washington and not London should in future be the centre for oil decisions. The British officials in Washington had hitherto been able when necessary to ask for reference of oil questions to the Blockade Committee in London, on which the United States was officially represented; in Washington their position was weaker, for they were only invited to attend the meetings of the Iberian Committee informally. The Ministry believed that 'in view of the extreme sensitiveness regarding Peninsular oil policy' in Washington the U.S. Government would never give its representative on the Blockade Committee any real authority to agree to decisions. The result of this somewhat defeatist attitude was that the United States authorities could virtually ignore the British altogether if they wished, and they proceeded at once to do so.

This incident arose in connexion with a further crisis in Spanish-American relations. During May and June the working out of the American oil supply programme had made better progress, and it was expected that it would at last be brought into operation, although there had as yet been no definite decision regarding the fate of CEPSA. It seemed, nevertheless, by the beginning of July, that the oil problem had been solved—high time, for Carceller was still refusing export licences for wolfram to mark the Spanish Government's distrust of American policy. Then came the startling news from Washington on 11th July that without consulting the British embassy the State Department had telegraphed to Madrid that the programme proposed by Smith represented 80 per cent. of the 1935 consumption and would permit consumption on a higher level than was justified by prevailing world conditions and restrictions.¹ In future, shipments should not exceed 50 per cent. of the average consumption for the years 1929 to 1935. This meant an annual figure of only 400,000 tons as against Smith's figure of 637,000 tons, and, what was more, the Spanish Government was not to be informed of these amounts. Mr. Wyndham White at once protested that the British embassy had not been consulted and said that it would be most unfortunate if unilateral decisions of this kind were taken without full inter-governmental consultation. Sir Samuel Hoare also protested against the proposed cut, emphasizing the success with

¹ This decision had been telegraphed to Madrid on 2nd July 1942, nine days before the British embassy heard of it. Feis says that the decision was again due to fear of Spanish aid to the Axis, in view of the situation in North Africa. 'The State Department could not detect any signs of a change in the policy of the Spanish government. But in view of [the] recent movements of diplomacy and of battle, the smaller the oil supply at hand in the Iberian Peninsula, the better.' *Ibid.*, p. 176. The odd thing is that at this point the State Department were insisting on the renewal of supplies to French North Africa, see p. 371 below.

which Axis propaganda had convinced certain influential Spaniards that the Americans did not really intend to give Spain oil or any other supplies; he hesitated to say what might happen if there were any further breakdowns, but was convinced that the results would be serious.

Then on 23rd July Sir Ronald Campbell telegraphed from Washington that the State Department had made a partial concession; it was prepared to allow the Spaniards to import oil up to the existing limit of their tanker tonnage. This was estimated at some 490,000 tons a year and would allow about 245,000 tons for the period from July to December. The State Department had also agreed that the Spanish Government must be given some indication of the amount of oil which, subject to a satisfactory development of trade exchanges, would be made available. Sir Ronald advised acceptance of these proposals: they seemed the best that could be obtained and further delay or argument might play into the hands of those in the State Department who disliked even those limited concessions. M.E.W. at once telegraphed its approval and by the end of July several cargoes had been released.

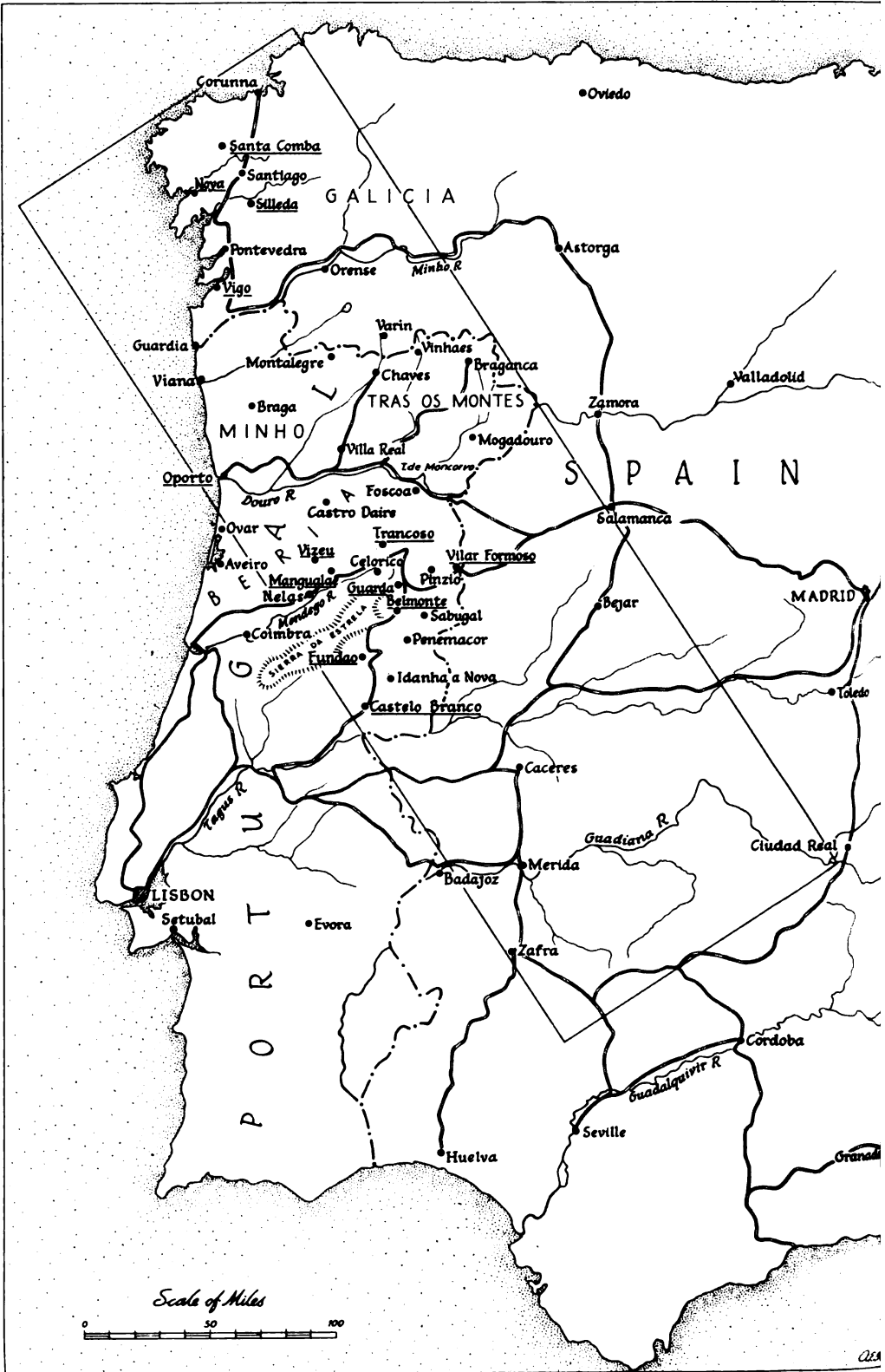
The State Department had suddenly become more accommodating because on 25th July the Combined Chiefs of Staff had decided on TORCH—the forthcoming Anglo-American landing in North West Africa. Nothing must now be done to alienate Spain. While the Americans retained their exaggerated fears of Franco's connivance with Hitler, they were willing for the supply-purchase programme to be put into operation as a means of preventing a triumph for pro-Axis sympathizers in Spain; and so the British programme, which had been based for the last two years on the assumption that this was the right way to handle the Spanish Government, came into its own. The State Department's policy, as I.P.O.C. saw the matter, was not inconsistent. There seemed to be two alternatives. One was the British plan: to maintain a minimum programme of supply without insisting on much return in order to lessen the chance that distress and disorder would drive the Spanish Government into the arms of Germany. The other was the plan which the Americans favoured as long as it could be followed without disaster: to insist upon adequate return and to leave Spain to suffer if it were not given.¹ This was not, however, a correct, or adequate, assessment of the Spanish problem, for it is clear, on the one hand, that some of the American stubbornness over oil was due to political and strategic, and not economic, causes (fear of Franco's cooperation with Germany), and, on the other, that Spanish supplies were of more value to the Allied war effort and more abundant than I.P.O.C.

¹ This at any rate is how Feis defines United States policy: Feis, *The Spanish Story*, p. 154.

realized. Since Mr. Labouisse's visit only 62,000 tons of petroleum products had arrived in Spain at a cost of 933,000 dollars. During the same period the United States had purchased goods to the value of 3½ million dollars, and had received export licences to a value of 2½ million dollars. Any current shipments of petroleum products would be more than matched by current mercury purchases which amounted to about 2½ million dollars. The feeling among American officials that they were not receiving much of value in exchange for oil is hard to understand.

There were still delays to tankers. On 19th August Mr. Carlton Hayes, the new United States ambassador in Madrid, assured Sir Samuel Hoare that he had telegraphed personally to the President on the subject. He had also the day previously seen the Spanish Under-Secretary for Foreign Affairs and had assured him that the United States Government would do everything possible to eliminate delays in the future, although he had added that the goodwill of the United States must be reciprocated by the Spanish Government. On 21st August Sir Ronald Campbell reported from Washington that the Americans appeared to be 'genuinely anxious that the agreed programme should be implemented and worked smoothly and without arbitrary interruptions'; every endeavour was being made to discover the cause of delays and as a result of a protest made by the Spanish ambassador to the President the State Department had examined the whole machinery and was taking steps to eliminate those delays which had been discovered. With some righteous indignation the State Department was able to show that much of the trouble was now in the Caribbean loading ports rather than in Washington and was due to the inefficiency of CAMPSA and CEPASA. These companies, left to themselves, got nowhere with the local authorities who rather naturally gave priority to work directly connected with the war effort. CAMPSA invariably omitted to make suitable loading arrangements, forgot to give appropriate instructions to the masters of their tanker fleet, failed to put the loading companies in funds for ship's disbursements and even on one occasion sent a dirty tanker to load gasoline. It suggested that a British official, Mr. Kilbey, should be sent to Curaçao and Aruba to investigate delays.

The Ministry had accepted with mixed feelings the fact that the United States must be allowed to take the chief rôle in controlling petroleum imports into the Peninsula, but before abdicating it had made various stipulations designed to give it prompt information and to enable it to give detailed comments on points of policy before decisions were taken. Its fears seemed justified when reports on the petroleum situation began to reach London direct from Washington instead of from Madrid, and when finally a telegram was received



Spain and Portugal: The Wolfram Area

from the British embassy in Washington saying that 'Standard Oil of New Jersey have informed the Board of Economic Warfare of the following Spanish oil programme'. A letter was sent to Madrid suggesting that some tactful way should be found of informing Mr. Smith that the Ministry 'still have a certain interest in petroleum problems in the Peninsula and that we should appreciate it if programmes could be submitted to us simultaneously with their submission to Washington and, if it is not asking too much, before they are divulged to the trade'.

However, by the end of September most of the serious causes of complaint on the Spanish side seem, for the time being at least, to have been removed and the United States and British authorities were doing everything possible to minimize delays.

Actual imports into Spain as compared with the agreed quotas for the first three quarters of 1942 are shown in the following table:

Imports of Petroleum Products versus Control Quotas
(1942—in tons)

Quota: 492,000 tons all products per annum

	<i>Gasoline</i>	<i>Kerosene</i>	<i>Gas Oil</i>	<i>Fuel Oil</i>	<i>Lubricants</i>	<i>Total</i>
<i>Quarterly Quota</i>	44,000	2,500	26,000	44,250	6,250	123,000
IMPORTS						
1st Quarter	—	—	5,613	14,013	48	19,674
2nd Quarter	21,068	1,097	11,252	13,134	104	46,655
3rd Quarter	20,022	1,971	15,532	16,059	6,123	59,707
TOTAL	41,090	3,068	32,397	43,206	6,275	126,036

(iv)

Wolfram

The difficulties over rubber and oil supplies gravely complicated the plans for pre-empting wolfram. We have seen that in January 1942 the Spanish Ministry of Commerce had made it clear that export licences for wolfram would be given only if adequate supplies of rubber were assured. On 7th March the Minister told Mr. Ellis-Rees that if he could be promised 1,000 or 1,500 tons of rubber he would immediately grant licences for all the available wolfram and would even be prepared to take away from the Germans what they

had bought. He also promised that the British should have at least 600 tons of the year's production (estimated at 1,000 tons) when control was established.

Meanwhile, wolfram prices were still rising in Spain and on 21st March the U.K.C.C. was authorized to buy at the current Spanish price, provided that there was a reasonable chance of securing export licences. It had already bought 27 tons and was running short of funds. On the same day the Minister of Commerce, after being told that rubber would be made available, agreed to the British figure of 300 tons for the current quarter, and promised to issue licences. The Spanish Government then fixed the price of wolfram at 180 pesetas per kilogramme (£4,500 per ton) including a production tax of 100 pesetas, which was to go to the Government. This was later reduced to 50. By the end of March, 72 tons had been purchased at an average price of £3,510 per ton. Prices had increased from £675 per ton in February 1941 to £4,063 per ton in March 1942.

By the middle of May it became apparent from information available to M.E.W. that the Germans were refusing to buy at the prevailing high prices and were very discontented over the British policy of price raising. They were also unable to obtain export licences for their accumulated stocks, estimated at 400 tons, and generally in their economic negotiations with the Spanish Government were reported to be 'most abusive on the subject of wolfram'. However, by the beginning of June the German agents in Madrid had been instructed to buy wolfram at any price, and competition increased. Meanwhile the British had not received licences for the full 300 tons promised. Of the 198 tons purchased to 30th June, only 103 tons had been licensed by 11th July. The explanation was the United States' attitude over oil. Carceller said that he dare not authorize licences for the most valuable product in Spain unless he had some answer for the critics. After much persuasion by Ellis-Rees he finally agreed to issue the licences by 18th July, and said 'he would do it because we were interested and he knew we would do all we could to help'. He added that he was prepared to make full allowances for war-time difficulties but the United States must understand, as well as Berlin and Rome, that Spain would not be bullied into parting with her goods without any attempt to understand her needs or the difficulties with which she was faced. The Ministry thereupon agreed to the shipment of 400 or 500 tons of rubber, whichever was available, from Lagos at the end of August, provided that in the meantime export licences were granted for all wolfram purchased up to that date. On 16th July Sir Samuel saw Carceller and 'adopted an injured and almost angry manner', saying that unless the bargains already made were carried out he did not think it worth while to

have negotiations with the Spanish Government. Eventually, after some dispute, Carceller agreed to give licences for the remaining 95 tons of wolfram already bought, and to authorize licences for all the wolfram that could be purchased before the end of August in return for the promised 500 tons of rubber.

Meanwhile production was reported to be rising, from 56.8 tons in January 1942 to 144 tons in June. Further monthly increases were expected. Deliveries to the U.K.C.C. during the first six months of the year amounted to 229 tons as compared with 266 tons to the Axis (including the production of Axis-controlled mines, estimated at about 150 tons). Deliveries to the U.K.C.C. had increased, however, from 3.3 tons and 0.3 tons in January and February to 75 tons in June. Corresponding deliveries to the Axis were 23 tons, 1.3 tons, and 35 tons.

In August 1942 the suggestion was made, and approved by the Anglo-American Economic Committee in Madrid, that a Spanish company should be formed to acquire wolfram concessions, and to cut down costs through the elimination of intermediaries. The U.K.C.C. was opposed to the move but the State Department authorized the U.S.C.C. to use up to \$500,000 for the purpose. The British in Madrid favoured the proposal more especially since the Germans had by the beginning of October recommenced their intense buying activities and were trying to obtain output contracts from various producers. On 3rd October, though unconvinced of the wisdom of setting up a Spanish company, the Ministry authorized the ambassador to proceed with the scheme if he was still convinced of its advisability. The State Department gave a similar authorization. On 13th October the formation of a company was finally agreed in London. In November a Wolfram Committee was formed in Madrid to deal with all matters relating to the new company and to discuss outstanding wolfram problems. It was hoped that this step would simplify procedure and expedite purchasing.

It was becoming clear, however, by the end of 1942, that the policy of all-out pre-emption of wolfram in Spain had not been completely successful in depriving the enemy of supplies; after being driven from the market for a short time the Germans since September had been buying heavily at prices in excess even of those offered by the British. Production had increased alarmingly since July; for the first and second quarters of 1942 the average monthly output was estimated at 42 and 88 tons from the free mines, but by October the figure had risen to 239 tons. During the first months of 1942 the U.K.C.C. had not been faced with very active competition, and by August, with improved organization, it was getting 75 per cent. of the total sales. The improvement in the enemy's position after August is shown in the following table:

Purchases of Wolfram

	<i>1st Qtr. Monthly</i>	<i>2nd Qtr. Monthly</i>	<i>July</i>	<i>Aug.</i>	<i>Sept.</i>	<i>Oct.</i>
U.K.C.C.	18	54	95	148	63	92
Enemy and Swiss	15	29	34	65	95	115
TOTAL	33	83	129	213	158	207

It is true that despite this forced expansion of output the Germans were not able to obtain more than 700 tons in 1942, although by the end of the year they were buying at an annual rate of 1,500 tons. But the increase in output, resulting no doubt from the ever-increasing price, meant that unless the Allies could find the funds to expand their own purchases proportionately they would have defeated their own ends in plunging into competition with the Germans. It appeared therefore that much larger quantities would have to be bought and provided for in the supply-purchase programme.

(v)

Supply-Purchase (July–December 1942)

We can now return to what may be regarded as the main line of economic discussion with Spain in 1942. Sir Samuel Hoare and the British authorities in London were convinced that in the existing condition of Spain and in view of the stubbornness of the Spanish temperament the policy of 'bluff and bludgeon' that the Americans were following was bound to fail, and that economic sanctions, though in the last resort it might be necessary to apply them, were in Spain 'more effective in *posse* than in *esse*'. The long-drawn-out difficulties over oil certainly strengthened this view; the effect was simply to delay the carrying out of the Joint Anglo-American purchasing programme to which Washington and London were committed in principle, and to give valuable openings for obstruction by the Germans and the Falange. The hard facts of the situation were, however, slowly impressing themselves on the State Department. The appointment of Dr. Carlton Hayes as United States ambassador in April 1942 in succession to Mr. Weddell had greatly improved the situation; it made possible an easing of the relations between Suñer and the United States embassy, and, on 3rd September, Suñer himself was replaced as Minister of Foreign Affairs by Count Jordana. Professor Hayes had a sound understanding of the supreme value of Spanish neutrality, and he and the British ambassador were agreed on the importance of preventing action which would throw Spain

into the arms of the Axis just when the Allied invasion of North Africa was being prepared.¹

The planning of the Joint Anglo-American supply-purchase programme for the second half of 1942 began in May as soon as the outstanding difficulties over the first programme had been removed. Particulars of the American proposals for the second programme were received in London on 22nd May, and were discussed in the Ministry with the interested departments as well as with American representatives in London and the British embassy in Washington. We have seen that in the spring of 1942, for the purpose of defining the joint programme of pre-emptive purchases for which the cost was to be borne equally by the two governments, pre-emption was to be restricted to include only wolfram, woollen goods, skins, and mercury, with the possible addition of olive oil. Some supply purchases had also an incidental pre-emptive value in the sense that they could have been used by Germany for her war effort, but we are concerned here primarily with those commodities which were included in the Anglo-American pre-emptive programme itself.

The American authorities wished to prevent the sale of hides to Spain and also to include them in the pre-emption programme, as according to their information Spain had an exportable surplus of cow hides which she was selling to Germany. Information available in the Ministry was, however, that Spain had little if any exportable surplus of hides (as opposed to skins), and had moreover prohibited the export of hides since the signature of the war-trade agreement. Another difficulty was the fact that owing to the increasingly difficult supply situation the value of the goods which could be sent to Spain would not equal the value of those which it was hoped to buy. This in turn was aggravated by the high prices of Spanish products in relation to world prices. It was agreed in London in June that in view of the greater resources of the United Nations as compared with the Axis it would be to the advantage of the Allies to keep prices up in the Iberian Peninsula and, in order to strike the necessary balance between purchases and supplies, to raise the price of products supplied. Earlier British programmes in Spain had been designed to balance the cost of purchases against the value of supplies after making allowance for existing or expected debits or credits on the clearing account. From the proposed programme for the second half of 1942 it looked as if the deficit would be about 12 to 15 million dollars. Some means of covering this deficit were clearly necessary, and the most convenient method of doing so appeared to be to make a surcharge on certain selected items. It was agreed that commodities, to be eligible for price raising, must be (a) the virtual monopoly of the United Nations or from sources

¹ Piétri, *op. cit.*, p. 83.

under their control, (b) capable of bearing subsidies in Spain to avoid unfavourable reactions on consumers, and (c) capable of exclusive sale through the U.K.C.C. or the U.S.C.C. Commodities suggested, with the proposed percentage increase, were oil and oil products 200 per cent., copper sulphate 100 per cent., rubber a further 66 per cent., ammonium sulphate 100 per cent., wood pulp 50 per cent., Egyptian cotton 50 per cent., graphite electrodes 100 per cent., asbestos 100 per cent., sugar 25 per cent., and codfish 25 per cent. It was estimated that these increases would add about 12 million dollars to the total value of supplies. Pitch, asphalt, and seed potatoes were added to the list later.

Discussions on commodities to be included in the joint programme were still proceeding in August; the Board of Economic Warfare agreed to the proposals already made but was anxious to extend pre-emptive purchases to include such goods as lead, fluorspar, acidspars, zinc, and potash. The Pre-emption Committee in London was of the opinion that these commodities had no special pre-emptive value and a telegram in this sense was sent to Washington on 21st August. Finally, agreement seems to have been reached about the end of August and the programme as submitted to the Spanish Government by the British and American representatives appears to have been substantially as follows:

Joint Supply-Purchase Programme
July-December 1942

PURCHASES

<i>Commodity</i>	<i>Quantity tons</i>	<i>Price \$</i>	<i>Value \$</i>	<i>Destination</i>
Wolfram	500	20,000 per ton	10,000,000	U.K.
Woollen goods			10,000,000	U.S.
Skins and hides	2,000	5,000	5,000,000	U.K.
Olive oil			5,000,000	U.S.
Mercury	23,500 flasks	250 per flask	5,875,000	U.S.
	11,500	5	2,875,000	U.K.
Iron Ore	390,000	30 c.i.f.	1,936,000	U.K.
Zinc	30,000		900,000	U.S.
Oranges (bitter)	15,000	95	1,416,000	U.K.
Onions	15,000	100	1,488,000	U.K.
Rabbit Skins	800		2,000,000	U.S.
Potash	15,000	38	564,000	U.K.
Cork	3,400	140	480,000	U.K.
	5,500	100 f.o.b. plus freight	550,000 137,000	U.S.
Strontium Sulphate	10,000	40 c.i.f.	400,000	U.S.
Pyrites	20,000	25 c.i.f.	500,000	U.S.
	60,000	5	300,000	U.K.
Argols	1,400	600	832,000	U.K.
			1,350,000	U.S.
Miscellaneous (Fluorspar, etc).			1,200,000	U.K.
			2,000,000	U.S.
			\$54,803,000	

SUPPLY-PURCHASE (JULY-DECEMBER 1942) 311

SUPPLIES

Commodity	Quantity tons	Price \$	Value \$	Source
Oil and Oil Products . . .	300,000		10,000,000	U.S.
Coal and Pitch . . .	180,000	28 c.i.f.	5,040,000	U.K.
	40,000	7 f.o.b.	280,000	U.S.
Copper Sulphate . . .	5,000	{ 2,000 @ \$160 3,000 @ \$320 }	1,280,000	U.K.
Rubber	1,000	3s. p. lb.	1,332,000	U.K.
Ammonium Sulphate . . .	12,500	60	750,000	U.S.
	12,500		750,000	U.K.
Wood Pulp	4,000	225	900,000	U.S.
Cotton	18,000	6d. p. lb.	4,000,000	Brazil
	2,000	10d. p. lb.	732,000	Congo
	8,000	7d. p. lb.	2,400,000	Brazil
	10,000	\$450 p. ton	4,250,000	U.S.
Chick Peas and Dried Beans	15,000	\$150 p. ton	2,250,000	U.S.
Graphite Electrodes . . .	150	20 cents p. lb.	67,000	U.S.
Asbestos (non-spinning grades)	2,500	\$300 p. ton	744,000	U.K.
Carbon Black	240	111 p. ton	27,000	U.S.
Hides	500	400 p. ton	200,000	W. African
Tobacco			480,000	Brazil
			500,000	U.S.
Sugar	30,000	80 p. ton	2,400,000	U.K.
Codfish	15,000	180 p. ton	2,700,000	Newfound- land
Industrial chemicals . . .			200,000	U.S.
Tight Staves	600,000 } in number }	54 cents each	324,000	U.S.
Asphalt	500	(natural) \$48 p. ton	24,000	
	17,000	petroleum \$40 p. ton	680,000	
Chilean Nitrates			240,000	U.K.
Seed Potatoes	10,000		600,000	U.K.
Miscellaneous (Powdered milk, Razorite, Tea, etc.)			1,000,000	U.K.
			2,000,000	U.S.
			<u>\$46,150,000</u>	

Although supplies to Spain were not strictly a matter of economic warfare, the pre-emptive purchases which could be made, and for which the Spaniards were prepared to grant export licences, depended on the supply of important commodities to Spain from Allied sources and the two programmes were therefore to a large extent interdependent. For this reason the Ministry of Economic Warfare became the coordinating department for these so-called supply-purchase programmes. Many purchases were made before licences were obtained, as we have already noted in the case of wolfram. Occasionally, the demand for licences proved an embarrassment to the Spanish Government officials concerned. At the end of September 1942 it was found expedient to refrain from any attempt to secure licences for some time: a German trade delegation had been in Madrid for some two and a half months, making special efforts to obtain woollen goods, skins, and olive oil, and the Spaniards were 'proud of the fact' that they had succeeded in resisting the German demands in every way possible. It was understood

that the German delegation had constantly attacked the Spanish officials for selling to the Allies skins and woollen goods which Germany had wanted during the winter, a fact which could be regarded as proof that the Allied pre-emptive programme had not been in vain.

Yet the Spaniards still professed little confidence in American promises. Sir Samuel Hoare wrote on 22nd October that the main trouble now was not so much oil as the fact that, while receiving supplies from Spain the United States Government had failed to deliver goods which had been promised to the Spaniards as early as April 1942. As a result the Spanish Government had accumulated a balance of some ten million dollars and 'could not disguise their suspicion of and resentment over the American attitude'. In their turn the Americans blamed the Spaniards for incompetent administration and inadequate representation at Washington. On 13th November Sir Samuel Hoare complained that

Americans have produced one condition after another, each one of which may have some justice but method and timing of their introduction invariably produce a deadlock. . . . As things are we have carried Americans on our back and all that has happened is that they have become heavier and we correspondingly weaker. We have negotiated purchase of pre-emptive goods and financed purchases without full reimbursement so that we are now obliged to slow up our own purchases.

And yet, in spite of German competition and all the other difficulties, the results achieved were fairly satisfactory. Of the target figures given in the joint programme the following percentages were obtained:

Mercury	90 per cent.
Iron Ore	80 per cent.
Potash	103 per cent.
Cork	51 per cent.
Pyrites	116 per cent.

As regards the commodities purchased on primarily pre-emptive grounds, deliveries of wolfram and skins compared very favourably with the original target figures. Shipments of wolfram during the last half of 1942, including export licences issued on 2nd January 1943 for 285 tons, amounted to 715 tons, or 43 per cent. in excess of the quantity originally anticipated. In the case of skins, deliveries, including export licences for 600 tons promised by the Spanish Government at the end of January 1943, exceeded the target by 348 tons or 17 per cent. In the case of woollen goods, the aim at a target figure was of necessity 'a shot in the dark'. The actual pur-

chases, which only amounted to 40 per cent. of the target, were therefore no indication of the pre-emptive results achieved, although the expenditure was somewhat restricted during this period by the shortage of pesetas.

As regards Allied supplies to Spain, results were not so satisfactory. In the case of rubber, hides, and copper sulphate the target figures were surpassed. Of the three most important items from the revenue point of view, namely cotton, coal, and petroleum, approximately 90 per cent., 61 per cent. and 74 per cent. respectively were supplied. In other cases, shipments to Spain fell considerably short of the mark. Thus only 47 per cent. of the sugar, 45 per cent. of the seed potatoes, and 3 per cent. of the asbestos was delivered. No chick-peas, sulphate of ammonia, wood pulp, or electrodes were supplied. The total value of the joint supplies to Spain was therefore about £6 millions, and the value of the quantities not delivered was a further £4 millions. The cost of purchases in Spain, however, including deliveries of wolfram to 2nd January 1943, was about £8½ millions, the shortfall on the target figures being less than £2 millions. It seemed, therefore, that the Spaniards had fulfilled their programme to a substantially greater extent than the Allies.

CHAPTER XI

PORTUGAL

(i)

The Agreement-in-Principle of January 1941

IN Portugal Great Britain had at once a closer political friend and a tougher economic antagonist than in Spain. In economic-warfare matters Portugal was in a curious position; she was still dependent on Great Britain for overseas supplies, but on the other hand she had much to interest the Germans, particularly wolfram. Already by 1941 the Anglo-German pre-emptive struggle was intense. To the Portuguese Government these many strange happenings were merely examples of the embarrassments to which the country had been subjected through no fault of its own; and in his desire to placate the Germans, to strengthen his country's economy, to avoid the unpopularity of repressive domestic legislation, and to stand well with Franco, Dr. Salazar was much more inclined to reproach than to assist the ancient ally. The Foreign Office was always sensitive to the accusation that blockade enforcement was administrative pedantry which was defeating the broader aims of Allied policy; it played some part in hampering the Ministry of Economic Warfare's work, in Portugal as elsewhere. Dr. Salazar was reported to have said in an informal interview with a representative of the Vacuum Oil Company late in 1941 that the threat of German force made it far more difficult to stand up to German than to British pressure and in any case Great Britain would behave in an understanding way towards Portugal regardless of the attitude that Portugal adopted.

The threat was real.¹ The first neutral ship bound for the United States to be openly sunk by the Germans was the Portuguese s.s. *Corte Real*, sunk on 12th October 1941, eighty miles off the west coast of Portugal: a reminder to the Portuguese to keep German interests in mind. One result of the sinking was the issue of a Portu-

¹ Cf. Hitler's remarks to Raeder, 25th July 1941. 'As soon as the U.S.A. occupies Portuguese or Spanish islands, he will march into Spain; he will send *Panzer* and infantry divisions to North Africa from there, in order to defend North Africa' (*Fuehrer Conferences*, p. 223). On 15th June 1942 Raeder notes plans for German submarine intervention in the event of an occupation of the Azores, but there is no further suggestion of an advance into Spain (*ibid.*, p. 284).

guese decree prohibiting the carrying in Portuguese ships of any goods destined directly or indirectly for belligerents. In December the 7,000 ton *Cassequel*, one of Portugal's finest merchant vessels, was torpedoed en route for Angola. The new alignment of forces created by the Russo-German and Japanese-United States conflicts had indeed, for the time being, introduced new tensions in Anglo-Portuguese relations. The closing of the trans-Siberian route had cut off Germany's main channel of foreign supply and made the Peninsular route correspondingly more important; it had also increased the value of local products such as wolfram. The British alliance with 'godless communists' was repugnant to the religious susceptibilities of the Portuguese régime, and so too in some measure was the Anglo-United States alliance, for by many Portuguese the Americans were thought to be sadly lacking in respect for Latin culture. Anglo-Portuguese relations were directly shaken by the disembarkation, on 17th December 1941, of Netherlands and Australian troops at Dilli,¹ the capital of Timor. (In December 1940 the Portuguese Government had conceded an airline from Australia to Timor; and to the Japanese on 13th October 1941 an air service from Pelew to Dilli.) Sir Ronald Hugh Campbell, the British ambassador in Lisbon, went so far as to say that the incident had 'placed a strain upon Anglo-Portuguese relations such as had not been experienced since Lord Salisbury's ultimatum of 1890': he did not anticipate a breach with the British Government or an actual denunciation of the alliance—this might cause a revolution—but he believed that the confidence of many of the educated Portuguese had been disturbed. Dr. Salazar would probably be—and indeed was—'very reserved'.

There seems no doubt that a genuine fear of popular repercussions caused the Portuguese Government to shrink from imposing the measure of domestic control which would have been necessary to guarantee the efficient fulfilment of the Anglo-Portuguese blockade agreement on 28th January 1941.² Generally speaking, economic conditions in Portugal were reasonably good during 1941, especially in foodstuffs (Portugal being the only European country free from any kind of domestic rationing), but there were some alarming developments. In a country of such chronic poverty and primitive conditions many agricultural workers, accustomed to a daily wage of about two shillings, were ready enough to abandon their hereditary toil for the greater rewards that came from the illegitimate sale to both sides of wolfram ore, which could often be scraped from the soil. In the process private properties were invaded and trampled; even cemeteries were violated. The Portuguese press had a good deal

¹ The Japanese subsequently occupied Timor, 19th February 1942. They professed to have no territorial designs on Portugal so long as her government remained neutral.

² E.B., i, 521-2.

to say about the wolfram boom; and although some space was given to robberies, brawls, and murders (dear to the Portuguese reader's heart) there was a serious effort to publicize the gravity to the local economy of the almost complete abandonment of agricultural production in certain areas. In the Castelo Branco district it was said that the entire population of one village, Lousá, numbering 400 odd, had left their homes and land to fossick for wolfram. More or less the same thing was happening in nearly every village or town within reach of the wolfram districts. In many places not only the agricultural population, but the shoemakers, tailors, masons, carpenters, and even government officials were giving up their regular employment in order to discover wolfram. Yet at the time the Government was making a real effort through the press to instil into the rest of the population the absolute necessity for everyone to plant and grow food and vegetables and raise livestock, particularly rabbits and chickens. Thus with the British and the Germans spending about £1,000,000 a week on wolfram and sardines the result of the enhanced purchasing power of a section of the population was to increase greatly the shortage of consumer goods and accentuate the tendency to inflation which the Portuguese Government's attempts at price control seemed powerless to prevent.

Dr. Salazar had a further cause for uneasiness and reserve in connexion with Portugal's imports of petroleum. Though a petroleum programme was prepared for the third quarter of 1941, there was no real guarantee that Portugal would acquire her quota since she had no tankers, and, drawing her supplies as she did from the Gulf and Caribbean areas, had had to rely for her supplies, whether refined or crude, upon the tankers of the oil companies. As in the case of Spain, the State Department had been niggardly about granting export licences before the United States came into the war, and, after December 1941, all American-controlled tankers were withdrawn. It looked as if the Portuguese Government would have to institute rationing, or close its refinery. Either of these developments might have given the Ministry useful bargaining weapons in the wolfram negotiations; but the Allies enjoyed air facilities at Lisbon and certain air and naval facilities in the Azores which it would be impossible at that juncture to forgo. Dr. Salazar was reluctant to impose any form of domestic rationing of petroleum on a people whose standard of life was already so precarious. The American refusal of tanker tonnage to Portugal came 'at a peculiarly embarrassing moment in view of the atmosphere created by the occupation of Timor'. At the beginning of the New Year Portuguese petroleum stocks were very low—while the annual internal consumption was reckoned at 160,000 tons, with 14,000 for bunkers (and possibly 16,000 tons for the railways, which were to be turned over to oil

because of the shortage of coal), actual stocks in the hands of the companies were 6,300 tons, and of S.A.C.O.R. 21,071 tons. No tankers were en route for Portugal at that time. There was a minor tussle when the Portuguese Government proposed to requisition stocks of petroleum which had been laid down in the Azores at Great Britain's request for bunkers for British ships, and for convoys. The British ambassador had to warn the Portuguese Government that such a step would seriously prejudice Portugal's chance of further supplies from America. But he also had to warn the Ministry on 10th February 1942 that if it held up oil supplies as a means of forcing the hand of the Portuguese Government over wolfram it could not expect to prevent the requisitioning of the Azores' stocks.

Thus the last months of 1941 were a period of mounting exasperation between Great Britain and Portugal as the Ministry studied the loopholes in the 'agreement-in-principle' of 28th January 1941, and Dr. Salazar seemed more and more disposed to blame the blockade for the consequences of his concessions to Germany. The Portuguese Government did, however, officially recognize the British rationing system in August, and in September Sir Ronald Campbell argued that the blockade was best exercised, not by endeavouring to control individual firms but by a strict regulation of imports and by persuading the Portuguese authorities to maintain strict control over exports. Imports were regulated on the principle that where Portugal's rations could be filled by the produce of her own colonies, no import would be permitted from any other source; this arrangement covered coffee, maize, beans, rice, sugar, vegetable oils and oil seeds, sisal, cocoa, gums, and resins. Where the ration could not be filled from the colonies (as in the case of cotton, hides, rubber, tanning materials, and tea) the Ministry would not object to navicerts and licences for the importation of these commodities to the extent necessary to complete the ration. But while the Ministry could control imports by the use of navicerts and export licences it had to rely on Dr. Salazar's assurances in the previous January that foreign goods imported through the blockade and their products would not be re-exported. The ambassador recommended in October that the quotas for bread grains, coffee, tea, sugar, and cocoa should be increased, although he had to admit that all except bread grains were leaving Portugal in small quantities. He argued, nevertheless, that the price of a more lenient attitude would be worth paying if it brought about Dr. Salazar's assistance over wolfram. The Ministry on the other hand thought that a showdown with Portugal would probably be better than the constant nagging about details.

The main source of the Ministry's dissatisfaction was the continued doubts as to whether the Portuguese authorities were honouring the

agreement of January 1941 in spirit: the letter was admittedly too indefinite to provide a basis for complaint. C.E.D.U.P., the special company which was to act as consignee for colonial produce shipped to Lisbon for re-export,¹ was not finally constituted until October 1941 (a year after its formation had first been proposed), and the attempt to canalize rationing relationships through it did not prove very satisfactory. Notification in advance of the release of stocks for home consumption was not being given, and this made it difficult for the Ministry to fix the blockade quotas: for example 750 tons of sisal (considerably in excess of a quarter's ration) were released without warning in November. The Ministry's aim in trying to freeze the free-port stocks had been to prevent their export without British approval, and to be able to ignore them in giving the amounts to be imported each month for internal consumption. The throwing on the market without warning of unknown quantities of goods would upset the basis of rationing and although C.E.D.U.P. undertook not to issue export licences for these goods, the possibility of smuggling out of the country would remain. It was admitted that the Portuguese had reserved the right to requisition these stocks, but the Ministry had assumed that this would happen only in the case of some calamity or special emergency. There was a further complication in February 1942 when it was found that the Portuguese figures of pre-blockade² stocks in the Lisbon warehouses did not give a complete picture, as there were additional quantities in warehouses at the frontier. Difficulties had also arisen over 'post-blockade' stocks. As it had taken six months to agree how the company was to function, some of these had been admitted into internal consumption without British permission. The parcel post provided another leak. At the beginning of July 1941 Sir Ronald Campbell wrote of the 'organized evasion of the blockade which has recently developed'; even rubber was being exported in small packets. A Portuguese departmental order in the same month prohibited the re-export by mail of any goods subject to export licence, although a sample post of half-kilo parcels of coffee, chocolate, cocoa, cakes, and tinned fish was allowed. This of course constituted a partial breach of Dr. Salazar's assurances but the ambassador thought it a genuine attempt to prevent 'organized' evasion.³

Then there was also a considerable transit of goods over the ill-guarded frontier into Spain: the Ministry had secret information in January 1942 that goods which would require export licences were being disguised as indigenous products, palm oil for example as

¹ E.B., i, 520, 523.

² i.e., stocks in existence before the agreement of January 1941.

³ The matter was not finally regulated until early December 1942, when a Portuguese decree made all exports, including parcel and sample posts, subject to export licence.

turpentine, beans in barrels as wine. These exports continued in spite of a regulation in September 1941 which required that everything except wool and coal was to be verified at the frontier or place of loading. Some Spanish officials were known to be conniving at the camouflaging of documents for these clandestine exports. One case which came to the Ministry's notice in January 1942 involved nineteen trucks of coffee and wool. This was a SOFINDUS activity, as had been an order in August 1941 by SOFINDUS (Madrid) for 3,600 pairs of Portuguese boots, to be followed by a further 3,000 pairs at the end of September. The Ministry warned the Portuguese Government that this might mean cutting the hides quota, but in February 1942 sole leather was apparently still being exported. Stores of hides, including 350 tons lying at Vilar Formosa, were among the pre-blockade stocks which caused so much exasperation to the Ministry: over the figures it discovered that it had been 'completely misled'. When the Portuguese Ministry of Economy said that all pre-blockade stocks had been licensed and exported by 31st December, and disclaimed any knowledge of stocks at Vilar Formosa, the Ministry asked how these statements squared with the fact that 168 tons of ox hides and dried hides were exported during January 1942. 'What are we to do when the Portuguese give us assurances which they are apparently incapable of carrying out?'

Nor could the Ministry look with any great satisfaction on its purchasing programme in Portugal during the second half of 1941. Purchases through the U.K.C.C. had continued on the lines already laid down; the main items were wolfram, tin, and sardines, and purchases began of 'warm clothing'. By July 1941 it had become evident that the existing organization for pre-emption in the peninsula was quite inadequate for dealing with wolfram. The outstanding problems in Portugal arose in connexion with the British-owned Beralt mines, the largest in Portugal, many of whose employees had left in order to make better money in the 'fossicking' areas; with Borralha, the second largest and French-owned, considered to be the 'nigger in the woodpile', as the destination of its products was not decided; and, most serious, with the 'free' wolfram. Immediately after the attack on Russia, the Germans began a deliberate policy of price-raising to stimulate further Portuguese production of tungsten ore, and the Ministry's records repeatedly emphasize the better organization, more efficient methods, and consequent success of the Germans in getting hold of the mineral. The Treasury at once authorized the purchase of *all* available free wolfram instead of the limited purchases up to 50 tons per month; a mining engineer was sent out to report; and a reform of the U.K.C.C. was decided upon. 'The primary need is for a strengthened U.K.C.C. organization to operate in Portugal, full of resource and ingenuity, in close touch

with producers, and operating not on one line only, but on several—pre-emptive buying, obstructive tactics, pro-British propaganda among producers, contracts where these are practicable and the like.’

At the beginning of October 1941 the price rose from £2,500 to £4,000 a ton; by the middle of the month it reached £5,400; after a drop to £4,500 it rose again and reached a maximum of £6,000 in November. With these prices prevailing, production also rose to a very high level. It was reckoned that during 1941 the British buying agency secured 1,345 tons of free wolfram and 2,500 tons from Beralt as against an estimated delivery to the enemy of 2,000 to 2,500 tons. But the real ‘Peninsular war’ for wolfram still lay ahead.

Dr. Salazar promised in October 1941 a number of regulations designed to reduce wolfram production. But the chief of these, an export tax of £700 per ton, discriminated against British interests and did nothing to reduce the volume of metal going to Germany; for the Germans at this time were prepared to pay any price asked and exports to Germany went by the long and inefficiently guarded land frontier, while British exports went by sea and would be known. A further complication was that the Ministry of Supply was becoming increasingly interested in wolfram for use in armour-piercing projectiles and might wish that the output should not be lessened. A first step towards a governmental monopoly was made by the Portuguese Government in November by the creation of a special section of the Metals Corporation (C.R.C.M.) to deal with wolfram and tin.

The Ministry did not feel any need to change the existing policy of buying up to ten tons of tin a month, together with such concentrates and tin parcels as were covered by the wolfram policy; it was assumed that German stocks would last until the latter part of 1943, and that British efforts should be devoted to wolfram. Competitive buying of tin would further raise prices (which in any case had risen during the year from £600 to £1,600 a ton) and would lead to an undesirable increase in production. To attempt to purchase the current surplus would mean a pre-emptive loss of about £2,600,000 on which the Pre-emption Committee did not, at this stage, look favourably. It was also not thought worth while to engage in a violent pre-emptive struggle for sardines. The sardine agreement of July 1941 had, nevertheless, gone badly; the Germans had deliberately bolstered up prices (paying 60s. per case as against the British agreement price of 36s.) and had got in ahead of Britain with tinsplate. Large quantities would in any case be acceptable to the Ministry of Food, and there was prestige value in not abandoning those packers in Portugal with whom Great Britain had made contracts (some of them were already going over to the enemy). So the Ministry agreed in November to support within limits the proposal to buy sardines at a high price in competition with the Germans;

one-half of the loss was to be put down as pre-emptive, up to a maximum of £300,000.

A more optimistic view, however, was taken of the possibilities of depriving the enemy of 'warm clothing'. Portugal could supply skins and hides, wool and woollen goods; and a constant stream of exports to Germany of these commodities led to the closing of the relevant blockade quotas. But Germany was making a special drive for blankets—it was estimated that she would require blankets for 803,000 horses apart from the men's needs—and Portugal had blankets for sale. This was a new industry in Portugal, for the native wool, 'churra', the annual production of which was about 1,000 tons, had previously been sold to America for carpet-making. The Portuguese had now taken to making blankets from it, and although these were 'admittedly pretty bad blankets' they were 'presumably good enough for the Germans'. It was this blanket industry that Britain now sought to control; and pre-emption was the only possible method at this time. At the end of October, the Ministry sought authorization for the purchase in Spain and Portugal of any blankets and woollen clothes suitable for military use, and of woolly sheepskins, regardless (within reason) of cost. The U.K.C.C. received an offer of half-a-million blankets at £1 apiece, and signed a contract for 200,000 in November. No hides were available but there were ample stocks in Portugal of goat and sheepskins; the first pre-emptive purchase of 'warm clothing' in Portugal was actually of 50,000 sheepskin capes for £60,000 (of poor quality as it turned out, like the blankets), made over the heads of the Italians in October. The Ministry had news in December of the sale to the Germans of 25,000 blankets, though the Portuguese Government gave an assurance that export licences would be refused. During these months the Ministry was firm in its refusal to allow the import into Portugal of the 2,000 tons of merino which that country had been in the habit of importing annually: the quota was closed in September 1941 and was not re-opened even 'to gild the Timor pill'.¹ In December the Portuguese imposed an embargo on the export of churra and all other kinds of wool, and on the strength of this pressed for the re-opening of the quota: but this was again refused.

The economic-warfare objectives in 1942 were, therefore, the tightening of the blockade and the cutting down of German purchases, particularly of wolfram. The Ministry hoped to secure the first by means of a war-trade agreement which would strengthen the weaker links in the agreement of January 1941; the second would be facilitated by supply-purchase agreements under which the Allies would be guaranteed certain purchases both to keep goods out of German hands and to meet their own needs. In return the Allies

¹ See p. 315.

would offer supplies, including petroleum. Progress was slow, for the Portuguese seemed unimpressed by either the arguments or the offers of the Allies, and the United States Government, which alone could offer substantial supplies to Portugal, was not always easy to convince. Fear of German anger limited the range of concessions that the Portuguese could make to the Allies, and put a premium on hard bargaining.

Dr. Salazar himself took the initiative in blockade matters. At the beginning of 1942 he had a number of complaints apart from the general problem of the quotas, which were still being kept short, in spite of Portuguese protests, because of the persistent reports of re-exports to Germany. His specific complaints included the Ministry's long delays in fixing the wheat quota; the suspension of navicerts for oil seeds until the extent of the olive oil crop was known; the taking of live cattle imports from the islands off the quota; and the wrong timing of the imports of copper scrap and copper sulphate (needed for the potato crop). Some of these matters were settled during February. The Ministry was willing to agree to the full amount of wheat asked for, subject to a satisfactory solution of the wolfram problem. The complaints about cattle were 'ill-founded'; the copper sulphate was on the way. The oil-seeds problem, however, was more difficult, for there was evidence that olive oil had been exported freely until a few weeks previously, while ground-nut oil was being used for certain purposes for which olive oil was suitable. This was a typical problem of the importation of a 'similar product' to one that was being exported. Dr. Salazar's official visit to Spain in February 1942 appears to have convinced him that Spain was being much better treated than Portugal in blockade matters; and while the Ministry could hardly believe that the Spanish shared this rosy view of the blockade it naturally attributed the smoother working of relations with Spain to the existence of a satisfactory war-trade agreement. On his return Salazar sent a special envoy, Colonel Fernandes, to London to discuss matters arising out of the agreement of January 1941. He continued to show great irritation in his dealings with the British embassy.

The Ministry recognized that it would have to go some way towards meeting Dr. Salazar on blockade issues, although it felt that it must stand firm on the doctrine of 'similar products'. A number of minor points were discussed and settled with Colonel Fernandes, but the main issues were left to the ambassador in Lisbon to be dealt with after the wolfram problem had been solved. Sir Ronald Campbell reported an interview in a 'charged atmosphere' on 4th March 1942, the most inflammatory detail being the question of 'similar products' as applied to olive oil and oil seeds. Dr. Salazar, working himself up into a 'minor passion', said that 'if he was expected to

use olive oil for soap-making, he was not in the present state of the world going to commit such a wicked crime'. The ambassador went so far as to tell Dr. Salazar that at the Ministry of Economic Warfare Portugal was considered 'the spoilt child in the family of neutrals' and he stood to the point that the wolfram question so dominated everything that until it was out of the way not much progress could be made. Dr. Salazar continued in 'a very black mood'.

The Fernandes visit had produced one contribution to harmony: a statement by the Portuguese ambassador that his government would declare 'pre-blockade' stocks at an end. For the rest, however, he and Fernandes had taken the line that the British had transgressed the agreement of January 1941, whereas Portugal, with slight exceptions, had been loyal to it. The Ministry contested this vigorously, and sent Fernandes back to Lisbon with the message that if Dr. Salazar could not accept the British interpretation of the agreement the best course would be to negotiate a new one, free from ambiguities. This was ultimately achieved in the shape of a new war-trade agreement in the following November. But the negotiations crawled along during the summer and early autumn of 1942, for the Portuguese were not prepared to sign until they had secured a satisfactory supply-purchase agreement, and the Americans were not prepared to complete the latter until they had got the best terms they could for wolfram.

(ii)

Wolfram

The wolfram battle during the second half of 1941 had made three points clear. One was the upsetting of Portuguese economy; another was the Portuguese fear of German intervention if adequate supplies were not forthcoming; the third was the dependence of the British on Portuguese goodwill in financing their own operations. It has always to be remembered that the Portuguese Government was allowing the British free financial facilities at a time when British supplies to Portugal were too limited to balance their purchases. This was one reason why it was imperative that the United States should enter the field. She could offer oil and coal (British supplies were limited owing to lack of shipping), steel, fertilizers, newsprint, and wood pulp, none of which could be furnished by Great Britain. If she entered the wolfram market she could establish a claim to a quota and thereby strengthen the Allied position in the fight against German demands. Unfortunately the United States had hitherto had little interest in Portuguese economy, and was somewhat

slow (in the face of her multitudinous other problems at the turn of the year) in embarking on an active programme. She had suspicions, although these were less acute than in the case of Spain, of Portugal's connivance with the Axis. During 1941 she had been unwilling to buy Portuguese wolfram owing to the discrepancy between Portuguese and world prices, and because she was seeking long-term contracts in Argentina at prices lower than the Portuguese. The Ministry had been urging her entry into the Portuguese wolfram struggle since the beginning of November 1941.¹ The opposition of the R.F.C. to pre-emption in Europe also delayed American participation. But on 9th February 1942 came the welcome news that Mr. Jesse Jones had 'capitulated', and the State Department was able to join Great Britain in launching a supply-purchase programme. It proposed to join the British in purchasing wolfram through the 'buying-selling' mechanism, under which goods needed by Portugal would be supplied under what would be in effect though not in name a barter system.

Unfortunately this move came too late to prevent new and undesirable developments in Portuguese policy. At the beginning of January 1942 the British embassy discovered that plans were on foot in the Portuguese Ministry of Economy to establish state control over wolfram, with the ostensible aim of preventing fossicking, reducing the price, and bringing labour back to agriculture. This was a scheme that the Ministry could from some points of view welcome, but there was apprehension as to what might happen to the free wolfram: would it all be allocated to Germany? The Portuguese authorities made no secret of their fear that if the Germans were not given enough wolfram they would 'come and get it', and it followed that Portugal would be likely to satisfy German claims first. The reduction in price would be an advantage (from at least the pre-emptive angle) if it reduced the free output; but it was more likely to lead to increased sales to the Germans at high prices behind the backs of the Portuguese officials. The only guaranteed supplies would be those from the British-owned mines, and this strengthened the need for the entry of the United States into the wolfram market, preferably by taking over the output of Borralha. The U.K.C.C.'s agreement with this French mine had, however, been legally challenged, and the local managers, who were responsive to Vichy pressure and timidities, were not prepared to deliver to the British except on the order of a Portuguese Court. And it remained to be seen whether Dr. Salazar would accept the verdict, even if it were favourable to the British.²

¹ Cf. Feis' account of the State Department's views, *The Spanish Story*, pp. 167-9, and above, p. 132.

² E.B., i, 527-9.

The more gloomy speculations were confirmed in the next few weeks by Dr. Salazar's wolfram agreement with the Germans and by the details of new Portuguese control regulations. The agreement, the exact terms of which became known only gradually during succeeding months, was concluded on 24th January 1942. Dr. Salazar guaranteed export licences for 2,800 tons of wolfram, after the German ambassador, on 16th January, had promised 60,000 tons of German steel. The Ministry thought that Dr. Salazar had acted in this way 'probably partly as a result of the deterioration in our relations due to the occupation of Timor, irritation over our blockade control, etc., but partly also because the Germans offered steel and fertilizers which we had been unable to supply'. Fear of German attack was certainly an additional reason: this was the darkest moment of the war for the Allies. But while they were on firm ground in arguing that the old ally of Portugal should not have been presented with a *fait accompli* and should be assured of the same share of the market as before, their arguments served only to irritate Dr. Salazar. Nevertheless, if there were no governmental interference the British would continue (mainly through their control of the large Beralt mines) to have the greater part of the market. In addition, judgment was given on 10th February 1942 in the Borralha case that in respect of the old contract the mine should deliver to U.K.C.C. 541 tons of wolfram, and in respect of the 1941-2 proposition 900 tons, together with other minerals produced by the mine.

Regulations controlling the price and conditions of sale of tin and wolfram were issued by the Portuguese Metals Commission on 3rd February 1942. The owners of mining concessions in actual exploration were to be the only sellers, the Metals Commission the only buyers. The price was to be 150 escudos per kilo, including export tax: sales of wolfram by public auction were suspended until further notice and ores were to be delivered to the commission, which would pay for them at the established prices with due regard to their quality and content. The decree came officially into force on 1st March, but could not be effectively enforced until June, as the C.R.C.M. was not adequately organized to receive the mineral. But nothing could persuade the British officials that the order was not a major blow to Allied fortunes. The Portuguese Minister of Economy explained to Sir Ronald Campbell on 27th January that the intention was to fix 2,800 tons annually for each side, the quota to be filled by each with the production of its own mines together with an amount up to 50 per cent. of the 'free' production. It is true that the German minister was reported to have lost his temper with Dr. Salazar and demanded a postponement of the decree while he consulted Berlin. A little later, on 4th March, the German commercial

attaché, in an 'arrogant and mannerless' style, protested energetically to the President of the Metals Commission against the delivery of the total production of wolfram and tin to the commission, speaking of the 'unstable caprice of a country, when its government claims strict neutrality' and complaining that 'the minerals are being subjected to the whims of an organization without guidance, administration, or technical knowledge'. But the German indignation, if genuine, was assumed to be due to the well-known fact that they had invested big sums in concessions held in Portuguese names and were furious to think that half the mineral to be delivered by these concessions would go to the Allies.¹ The British representatives did not believe that they could draw much comfort from all this: they suspected that the Germans were establishing a grievance which would be the prelude to fresh demands. It was on 22nd June that Sir Ronald Campbell reported the German minister's statement that the Germans would have no need of Portuguese wolfram after 1942 because, having joined hands with the Japanese, they would receive from the East all that they required. 'This year, however, their need was vital and they must get from Portugal every possible ton.'²

Dr. Salazar in fact was determined that the Germans should secure their guaranteed share of the wolfram, even at the expense of the Allied quota. The British and American Governments fought a stubborn battle, which continued until August, for better terms. They secured some concessions, or at least a Portuguese retreat from the earlier, and least tenable, positions. The Minister of Economy's idea at the beginning of February appeared to be that 50 per cent. of the free wolfram should go to the Germans and the other 50 per cent., if not required to make up the Allied quota of 2,800 tons, should be used by the Portuguese Government as it saw fit for barter against goods which Portugal needed. Campbell insisted that the Allies expected to receive half the free wolfram, without taking account of the output of their own mines: if the Allies were not entitled to any of the free wolfram the Germans would no doubt pay fossickers a bonus to maintain their deliveries to the Metals Commission, knowing that half would come back to them in any case, and that they would have a chance to secure the other half by exercising pressure, such as threatening to sink Portuguese ships. The Ministry in London thought that the Portuguese offer was 'derisory'. It was at this point that the United States Government accepted the principle of pre-emption in Europe, and the State Department, losing no time, at once proposed to join Great Britain in purchasing

¹ There seems to have been some fear that Portugal was planning to cut off supplies. Speer noted: 'The Fuehrer recommends caution in the case of wolfram in spite of the favourable position, as conditions may cause deliveries from Portugal to be broken off'. Speer (Hamburg) Documents, 20th March 1942, para. 7.

² See p. 6 above.

two-thirds of the free wolfram through the 'buying-selling' mechanism. The British were quite willing to join in a request for two-thirds. The Portuguese reply on 13th February seemed to indicate a willingness to accept a bargain on these lines; it offered the United States a special quota for wolfram as part of a satisfactory import-export programme. But after this things moved slowly. At the end of February there was still no sign that the Metals Commission would shortly start work: the Portuguese authorities could find no one to run it. Nearly all the technical staff of the Mines Department had 'exchanged the modest security of government service for the attractions of the mining field'.

The technical inability of the Portuguese Government to execute its own plans for centralized control was a further cause of alarm for the Allies: the combination of nominal control and German bullying might rapidly undermine the Allied position. Sir Ronald Campbell told Dr. Salazar on 4th March that the Allies refused to be fobbed off with so unsatisfactory a plan. Dr. Salazar seemed open to argument, but not on terms which helped the Allies greatly. In the meantime, although the mining decree prohibiting purchases on the free market was supposed to be in force, the Germans were known to be buying steadily; the British, feeling that illicit purchases would seriously compromise their chance of securing a satisfactory quota, were not buying. The Germans, however, complained to the Metals Commission that the British *were* buying and that they were not.¹ On 17th March the Portuguese minister in Washington suggested to the State Department a settlement whereby the production of Beralt and Borralha should go to the United Kingdom, the Germans should have 1,000 tons on a 'long term contract', and the free wolfram, estimated at 1,000 tons, should be divided equally between the Allied Governments and the Germans. This plan appears to have been based on the German figures, and the British estimate was that annual production was about 6,000 tons and not 4,300; it was assumed that the Germans, having persuaded the Portuguese to accept these figures, intended to secure and smuggle the remaining 1,700 tons out of the country. The Allies therefore maintained their demand for the output of Beralt, Borralha, and the other U.K.C.C. concessions and contracts, and a fifty-fifty share of the free output (the United States Government being willing to retreat from its two-thirds demand).

At the end of March, with what Sir Ronald Campbell called 'a

¹ 'This is straight lying and we can prove that we are not buying, but many people will believe the Germans. . . . You will know that when we do something wrong we do it clumsily and are always found out, whereas when the Germans commit a sin they manage somehow to escape responsibility.' (Private letter from Mr. David Eccles to M.E.W., 19th March 1942.) Mr. Eccles was a member of the staff of the Ministry (1939-40), and then economic adviser to the British ambassadors in Madrid and Lisbon (1940-2).

characteristic impulse of generosity' the United States Government not only released four cargoes of oil but gave export licences which had been held up for some time, for goods to the value of 1½ million dollars. Mr. Fish, the United States minister in Lisbon, was even authorized to tell the Portuguese Government that a quarterly programme for oil would be put into force without waiting for a settlement of the wolfram issue, on the assumption that this attitude would lead Dr. Salazar to be equally rapid in his settlement of this problem. Fish and Campbell decided that 'the first two bouquets were sufficient for the moment', and neither made any noticeable impression on Dr. Salazar. He left the two Allied representatives in no doubt that as he had promised Germany export licences for 2,800 tons, including half the free wolfram, he was not prepared to disappoint them; to meet this situation the Metals Commission would have to collect at least 2,000 tons a year, and some of this might have to come from output under contract to the Allies. It appeared that he had told the Germans that he did not think they would reach 2,800 tons; he felt, however, that he must ensure their getting at least 2,200 or 2,300 tons. Although the Doctor also made it abundantly clear that his attitude would depend on the satisfactory settlement of supply and blockade issues he seemed to have decided that some 2,200 or 2,300 tons for the Germans was a *sine qua non*.

After these preliminary soundings, which had only served to reveal the unattractive features of the Portuguese programme, the three Governments settled down to more systematic negotiations, which began on 17th April, Colonel Fernandes being the Portuguese representative. Comprehensive Portuguese proposals were made orally by Fernandes on 22nd April.¹

1. The Portuguese Government recognized three British-owned concerns with a production in 1941 of 2,287 tons: Beralt, Cabril, and Mitchell. They also recognized 5 German holding companies with a production of 945 tons.
2. They agreed that no wolfram from British concerns as defined above was to go to the Germans and vice versa.
3. They would do nothing which might prevent the Germans from getting the 2,800 tons for which under their agreement they had promised export licences. This agreement expired on 1st March 1943.
4. They could not renounce their right to sell wolfram to the Germans or to any other buyers.
5. When the agreement with Germany expired they might agree to accept the British proposal that free wolfram should be divided in equal proportions.

¹ This summary is based on Sir R. Campbell's telegram to M.E.W. of 22nd April 1942.

6. They offered the British export licences up to 4,000 tons if produced by British mines as classified under paragraph 1.
7. If the production of British mines as defined above increased beyond 4,000 tons they would reserve the right to open discussions for a further agreement regarding supplies for Portugal against export licences for the excess over 4,000 tons. They admitted however the British right to develop production as they could.
8. All wolfram not produced by British and German mines as defined above would go to the Metals Commission and be allocated 50-50 to each side until one side reached 2,800 tons. Then the whole of the free wolfram would go to the other side until its quota of 2,800 was full.

The British naturally considered these proposals to be wholly unacceptable. They would be unable to obtain any production of any of their mines, or mines under contract to them, other than the specified three, until such time as the Germans had acquired their 2,800 tons, and even then there was no guarantee that the British would get any share of the free wolfram. The statement ignored the Borralha award. On 7th May the Portuguese agreed that certain additional mines could be classified as British, together with the output of Borralha;¹ in return, the Germans would have prior claim on the first 1,000 tons accruing to the Metals Commission, further quantities being equally divided, and after the Germans had obtained their 2,800 tons the Allies could have the whole output. This was some improvement; the proposal to allow the Germans the first 1,000 tons was obviously unattractive but Fernandes put forward a compromise plan under which the arrangement might be operated on a monthly basis (the Germans to get each month one-twelfth of 1,000 tons, and the remainder being divided fifty-fifty). The British representatives suggested a variant whereby free wolfram put into the pool would be divided 3 : 1 between Germans and British until such time as either the total German acquisitions reached 2,800 or German drawings from the pool exceeded the British by 1,000 tons, after which there would be a 50 : 50 division until the Germans secured 2,800 tons. Fernandes thought that this might offer a solution.

Thus agreement seemed to be in sight, and although the Ministry still disliked the Portuguese surrender to the Germans it felt that an early settlement was imperative and that the last proposal was not likely to be bettered in the existing circumstances. It might give the Allies at least 3,500 tons and the Germans between 2,500 and 2,800,

¹ This proposal followed the action of the judge in the Borralha case in informing the Metals Commission that his decision in favour of the British was not affected by the decree of 3rd February 1942.

as compared with about 3,000 each under the original Portuguese offer. A telegram was accordingly sent to Washington on 9th May recommending prompt acceptance.

But the State Department was very reluctant to be associated with such an unattractive bargain. The tussle between the State Department and B.E.W. was now at its height. If the Board could accuse the State Department of having agreed, simply on the British recommendation, to terms which gave the Germans slightly more wolfram in 1942 than they had secured in 1941, those members of the Department who most favoured a policy of collaboration with the British in the Iberian peninsula might be subject to bitter and quite possibly successful attack. The Division of Raw Materials, which had effective control of the negotiations on the American side, accepted the British view that severe economic pressure on Portugal would imperil the wider Allied interests in Portugal, but had to act on the assumption that there was room for further pressure short of any threat of sanctions.¹ The effect of these American objections was to delay further progress for another two months.

The State Department's first idea was to strengthen the Allied case by seeking a United States allocation of wolfram in return for the substantial contribution that it was prepared to make to Portuguese economy. The Portuguese promise of a quota on 13th February gave the necessary opening. The Department would have preferred to receive half the free wolfram as its share; failing that it was prepared to accept a fixed quota. Reports of a steady decline in the output of free wolfram during May (the result of the price restrictions) suggested that it would be better tactics to seek an increase in the number of mines controlled by the Allies rather than a larger share of the free wolfram, and accordingly the State Department put forward a new plan early in June whereby the British would get, in addition to their existing mines and Borralha, concessions producing an extra 432 tons, and Germany would receive, until 28th February 1943, 75 per cent. of the free wolfram. The United States would expect Portugal to reverse the position after 28th February 1943 and to assign to the United States and Great Britain not less than 75 per cent. of the free wolfram for the next period of twelve months. If this request was refused the State Department proposed to discontinue discussions on wolfram, in the belief that the British Government alone could make an agreement as satisfactory as the existing Portuguese proposals. It was, however, most unlikely that the British would be able to make any such separate agreement; the *quid pro quo* sought by the Portuguese was plainly American supplies. Mr. Feis and Mr. Walton W. Butterworth (who was on his way to

¹ I have followed here the analysis of the situation by the W.T.D. in Washington, in telegrams of 11th May 1942.

Lisbon) were in London in mid-June, and thought it unlikely that the United States Government could accept anything less than its latest offer. They explained that the supply-purchase programme for the Iberian Peninsula, although approved, was still under heavy fire in Washington, and the wolfram negotiations were regarded as the first principal test of their policy. They could only meet the objection that the Germans were getting more wolfram than in 1941, and the United States practically none, by a promise of substantial supplies after the lapsing of the present German-Portuguese agreement.

The State Department's distaste for the wolfram agreement in its existing form prevented any real progress in the negotiations until after the middle of July. Dr. Salazar made what was substantially his final offer on 22nd June. He proposed to allot to the Americans four further concessions producing 96 tons a year, to give the Germans further concessions with the same output, and to divide the remaining free wolfram in the proportion of 80 per cent. to the Germans and 20 per cent. to the United Nations. In reply the State Department still insisted on 75 per cent. for the Allies after 28th February 1943.

On 25th June the Portuguese Ministry of Economy issued a new decree dealing with the mining of wolfram and tin which established penalties for illicit mining and trading (Articles 1 and 2), and for failure on the part of holders of minerals to deliver to the C.R.C.M. within ten days (Article 4). Article 6 authorized owners of land in the 'reserved areas' to work tin and wolfram on their properties—an encouragement to new mining which did not seem consistent with the Portuguese Government's professed desire to see the population of the agricultural districts once more contentedly cultivating the soil. But even more startling was a statement issued at the same time by C.R.C.M. fixing the domestic price of wolfram at 120 escudos 'with the exception of a reduced number of mines, the production of which will have a special destination and for which the price continued to be 80 escudos'. This meant the British and German mines would have to sell their output to C.R.C.M. at the lower price, while the free mines would receive the higher, and the British and Germans would buy back their wolfram at the higher figure. The result of this discrimination would clearly be to attract labour and minerals away from the regular mines into the black market, and the British would suffer more than the enemy whose mines were for the most part collecting points rather than regular producers.

In the meantime the wolfram negotiations were at a standstill. Accumulated exasperations found vent in some blunt language in Lisbon: on 17th July Sir Ronald Campbell had a set-to with Dr.

Salazar in which words were not minced. After Campbell had said that the parties seemed to be turning without purpose like squirrels in a cage, Salazar complained heatedly of British methods. 'It is weeks and weeks since I made it plain that I had gone to the extreme limit (perhaps even a little beyond) imposed by my need of safeguarding my commitments to the Germans. If I break my contract I shall give them the pretext for starting again to sink my ships, which would cut off the whole of my trade with the United States, since none of their ships are coming to Portugal.' Campbell replied that if after the first sinking Salazar told the Germans that they would not get another kilogramme of wolfram, they would soon desist. Campbell attempted to discuss other grievances—the Portuguese refusal to come to terms over the sardine agreement, the withholding of licences for normal exports, and the like; but Dr. Salazar was 'so worked up that it was impossible to bring anything home to him at all'. Campbell concluded, 'it is clear that for the moment Dr. Salazar and all his myrmidons have gone completely sour on us, and I am certain that we shall make no headway until at least we have got wolfram out of the way'.

It was, indeed, high time for surrender. The enemy had been going ahead with a cut-and-dried agreement since January, whereas the British were uncertain of everything except Beralt. The Germans were known to be making a vigorous wolfram drive in the Peninsula, using for the purpose Swiss francs originally allocated for the purchase of ships to be built in Spanish yards, and buying whether export licences were forthcoming or not. Fresh proposals put forward in mid-July by the Portuguese minister in Washington represented little improvement on earlier offers, but the State Department now felt that it must accept them as a basis for agreement. The TORCH decision may have influenced this step. The mines under this scheme were apportioned much as before; 'free' wolfram was to be distributed on the basis of 75 per cent. to the Germans and 25 per cent. to the Allies up to the figure of 2,000 tons, after which the share should be 50/50; export licences to countries other than Britain and the United States were to be limited to 2,800 tons; the maximum to the latter was to be 4,000 tons. Both Governments were agreed that if the Borralha output were lost to the Allies the basis of the agreement would be destroyed; they were also determined not to commit themselves to a continuance of the existing arrangements after 1st March 1943. The British found the price discrimination particularly exasperating, and made repeated attempts during July to secure its removal, although with no success. The final stage was reached on 28th July when Fernandes presented a written reply to the Allied comments on the Portuguese proposals. This accepted some of the points on which clarification had been sought, but

refused to give an assurance that the Allies would be consulted before a fresh agreement was concluded with Germany for the period after 1st March 1943; refused to give a list of the German concessions (which the British already possessed); refused to give a further concession to the United States; and refused to end price discrimination. But the Portuguese position was accepted and the final agreement, based on a draft prepared by the British embassy, was about to be signed on 10th August when the British representatives, in checking the English translation, discovered that the Portuguese revision of the original draft had left the phrase 'free mines' completely undefined.

In the earlier draft the term had been satisfactorily defined, as it were, by exclusion, i.e. it had been assumed that everything which was not classified as English, American, or German was automatically 'free'. The British embassy proposed to meet the point by an additional note defining 'free mines' in this way, and adding that they interpreted this as meaning that no new mines or concessions, at present regarded as free, would be transferred to the Germans. To their astonishment the Colonel 'blew up' over this proposal, and denounced it as a violation of Portuguese sovereignty. They replied that it was impossible for them to sign an agreement giving them 25 per cent. of the free wolfram without a definition of what constituted free wolfram; as the agreement stood there was nothing to prevent the Portuguese from handing over 100 per cent., of the free wolfram to the Germans by the simple expedient of classifying all the outside producers as 'German'. Dr. Salazar, when the matter was reported to him, was said to be 'very angry': he exclaimed that the British had accepted the Portuguese text and could take it or leave it, and that he never wanted to hear the word 'wolfram' again. A hasty search through the minutes of earlier meetings showed that the free mines had been defined in the desired manner, and the Portuguese memorandum of 28th July had substantially confirmed the point. Mr. Fish suggested that the difficulty should be met by a letter to Colonel Fernandes saying that in view of the minutes and the memorandum the Allies were satisfied that their point was satisfactorily covered. With great reluctance the Colonel showed this letter to Dr. Salazar and then replied on 14th August that the Portuguese Government could not accept any complementary documents whatever for the clarification or interpretation of the terms of the agreement!

What had at first been regarded as a mere drafting point was now assuming major significance. It was possible to ascribe Dr. Salazar's insistence on signature of the text as it stood (on the mistaken ground that it had been formally accepted) to irritation provoked by last-minute boggling over the final stages of a negotiation which had

dragged on for six months as a result of delays originating, it had to be admitted, mainly on the American side. But the terms of Fernandes' reply and his oral comments left a strong suspicion that Dr. Salazar's take-it-or-leave-it attitude was due rather to the Anglo-American attempt to block a loophole that he was deliberately trying to keep open. Wolfram was coming so slowly into the pool that the allocation of additional free mines to the Germans might be his only means of fulfilling his commitments to them; and it was a reasonable conjecture that they, realizing the position, were turning the screw. While the British embassy did not suppose that the Portuguese intended to hand over any large number of free mines immediately they thought it quite probable that the transfer would be made piecemeal as and when it became necessary. It was estimated that allocation to Germany of all mines on the free list might result in the loss to the Allies of some 200 tons of wolfram a year and the gain of some 500 tons by the Germans, the disparity being due to the increased German facilities for stepping up production and for attracting ore from the Anglo-American concessions.

Yet even this would be better than getting no wolfram at all, and Sir Ronald Campbell, who had at first intended to ask whether he should return home, decided to await instructions. Both the British and United States Governments felt that it would be better to sign the text as it stood. The Ministry believed that while Dr. Salazar was determined to give the Germans from 2,200 to 2,400 tons of wolfram, he was prepared to give the Allies all the rest; and it did not seem that anything better could be secured except by applying a degree of pressure which would amount to a threat of war. Measures short of this—economic sanctions in other words—might lead him to hand over Beralt wolfram to the Germans out of pique. The Portuguese minister in Washington was told that the Anglo-American representatives would sign the agreement with a definite understanding in their own minds as to what the term 'free wolfram' meant, and with this slight reservation the necessary notes confirming the agreement were exchanged in Lisbon on 24th August 1942. It was to be put into force provisionally pending the signature of the general supply-purchase agreement.

The main conditions in the agreement were that export licences should be granted to Great Britain and the United States up to 4,000 tons; that there were seven recognized British concessions (including Borralha) and one American concession; and that the German concessions consisted of five specified companies with a total recorded output in 1941 of 945 tons. 'Free' wolfram was to be allotted in the proportion of 75 per cent. to the Germans and 25 per cent. to the Allies. British, American, and German mines were to receive £800 per ton for wolfram sold to the C.R.C.M. and buy

it back at £1,200: Borralha would be bought and sold at £1,200. All wolfram exported should pay an export tax of £300 per ton.

It is in these tortuous negotiations with the Portuguese Government, and not in the picturesque exertions of belligerent agents and neutral fossickers, that the real story of the wolfram struggle is to be found. Dependent on Portuguese credit and export licences, and controlling the greater part of the recognized output, the British could not afford to jeopardize their position by any large measure of illicit traffic. No purchase had been made of free wolfram since 1st March 1942 with the exception of some 50 or 60 tons which were bought by one of the U.K.C.C. staff and given 'guias' contrary to the law, and without the knowledge of the embassy. The Ministry accepted the view that as the market was now controlled, with the buying of wolfram illegal except from the Metals Commission, any bootlegging to secure a few hundred tons of the ore was not worth the risk. This was not an easy decision to take, and the U.K.C.C. took it hardly. It pointed out that it meant the breaking up of its minerals organization in Portugal, which comprised far more than the few specialists in the office; the staff would lose the close touch which it had established in 1941 with fossickers, miners, brokers, and intermediaries, and would be forced also to refuse any quantities of wolfram which some miners preferred to take the risk of bootlegging on to British properties rather than of offering to the Germans. It would take at least six months to get this team together again. What would happen if after the end of the present wolfram agreement renewed activities became necessary in 1943? The reply had to be that the U.K.C.C. must try to keep its mineral buying organization going by purchasing tin, as it had been doing since March.

Not that the Allies received any reward for their virtue. In its anxiety to maintain its own brand of complete neutrality the Portuguese Government was still trying to arrange matters so that the total wolfram production in Portugal was divided as far as possible equally between the two sets of belligerents. Up to the end of 1942 the Allies had received no wolfram from the Commission, which had clearly been instructed to see that the Germans received their full quota of 75 per cent. of the free wolfram before any was given to the Allies. The Vice-President of the Commission admitted in December that the whole of the wolfram delivered to it between March and the signing of the agreement on 24th August had been given to the Germans. At a meeting of the Anglo-American Economic Committee in Lisbon on 11th December the United States representatives put forward proposals for a resort to clandestine operations, but the British ambassador still felt that the small possible gains by these means would be 'risky and foolish' when it was hoped

to negotiate a new and better agreement before the end of the following February. For 1942 as a whole it was estimated that the total British acquisitions of wolfram were 3,353 tons (total shipments 3,531 tons), and that the probable German acquisitions were not less than 1,900 tons.

(iii)

The Supply-Purchase Agreement

Wolfram was—at least in Allied eyes—the most important item in the supply-purchase programme, and after the agreement of 24th August it was possible to hasten the completion of the programme, which the Allies had elaborated some months earlier. Sir Ronald Campbell found Dr. Salazar in a ‘most friendly’ mood on 28th August, apparently a little ashamed of his behaviour during the closing stage of the wolfram negotiations, and ready to be rather more cooperative. It was certainly high time to complete the outstanding negotiations. Although the greater part of the goods to be supplied to Portugal would have to come from the United States, while the bulk of the Portuguese supplies would go to the United Kingdom (partly because of proximity), it was nevertheless thought to be desirable, in view of Great Britain’s experience in purchasing in intra-blockade markets and her special trade connexions with Portugal, that she should play the leading part in the negotiations. The first steps on the American side were taken in March 1942, when Mr. Joseph arrived in Portugal to take charge of United States ‘buying-selling’ in the peninsula, and in Washington Mr. Feis took charge of I.P.O.C. By the end of March the Allied representatives were working as a team in the peninsula, and lists of goods which would be supplied jointly by the Allies were being discussed. This situation might have led to Anglo-American friction, and to avoid this, considerable time was given to settling the programme and the division of costs; and when the first draft lists of proposed ‘purchases’ and ‘supplies’ were drawn up they revealed great discrepancies between the two lists owing to the highly inflated prices of some of the Portuguese products, and the limited availability of Allied goods. Mr. Walton W. Butterworth of the State Department and Mr. J. W. Nicholls of the Ministry of Economic Warfare were sent to Lisbon in June to take charge of the economic-warfare discussions. Discussions started in July, but it was not until September that the joint programme could be presented formally to the Portuguese Government.

Some progress was made in the meantime in separate discussions

over individual commodities. Of these wolfram was the most important on the Portuguese side; oil on the Allied side. The two were closely linked, for while the State Department agreed with the Ministry's view that a complete cutting off of Portuguese oil imports would be too drastic a means of pressure in the wolfram struggle it was not prepared to sanction more than the barest minimum of supplies. The Ministry was anxious to get supplies to Portugal not only because oil sanctions would probably lead to a complete breakdown of economic relations, but also because it was in the Allied interest to maintain bunkers in the Azores and Cape Verde islands, and to ensure supplies for the working of the Beralta mine, aviation spirit for Allied airlines, and so on. Tanker difficulties were in any case keeping the Portuguese desperately short. American tankers were not available; the Portuguese managed to charter two from Spain, but one of these was lost, and the other, the *Campechano*, was subjected to long delays in United States' ports.¹ Authorizations for May, June, and July were, for example, 27,808 tons, but only 195 tons had been shipped by the beginning of August. On 1st August the stocks available for Allied consumers were only 609 tons, and the British embassy enquired whether Gibraltar or even Great Britain could supply foreign missions with oil for their cars. Import figures for the first nine months of 1942 were only 37,858 tons. As an opening gambit in the oil discussions I.P.O.C. proposed in July that Portugal should be allowed only 50 per cent. of her normal consumption. However, discussions proceeded fairly smoothly between the United States oil adviser and the head of the Portuguese Fuel Institute concerning the general conditions for preventing benefit to the enemy from the oil supplies, and these 'blockade' considerations formed in due course an annex to the supply-purchase agreement.² The quantities to be supplied figured in the main schedule of the agreement.

The joint supply-purchase programme with a covering memorandum was presented to the Portuguese authorities in Lisbon on 2nd September; but it had been realized that some strenuous bargaining would be necessary in order to balance the account or to secure some alternative price adjustment. On the first trial balance sheet the proposed purchases from Portugal would cost 76,225,000 dollars, and supplies to Portugal would come to 37,812,000 dollars. For months the Portuguese had been complaining about the

¹ Feis, *op. cit.*, pp. 158-9.

² The main points were (1) no petroleum to be exported to any foreign destination without United States and British approval; (2) none to be supplied to any enemy vessel, aircraft, or industrial establishment; (3) stocks of lubricating oils not to exceed three months' consumption; other petroleum stocks not to exceed two months' consumption; (4) facilities to be given for United Nations' stocks in the Azores and Cape Verde Islands; (5) smooth working to be ensured by continued cooperation with the Fuel Institute.

inadequacy of the United Nations' offers. The Portuguese Government made counter-proposals on 14th September with demands for greatly increased supplies of certain goods (50,000 tons of ammonium sulphate per annum as compared with the Allies' offer of 10,000; 60,000 tons of iron and steel products as compared with the Allies' 45,000 tons, etc.). After some haggling and concessions by the Allies most of the Portuguese demands had been met by the beginning of October, but iron and steel and ammonium sulphate still proved difficult, for supplies were genuinely short, and the Allies had conscientious scruples about imitating the Germans in 'deliberately promising more than they expect to deliver in order to secure immediate advantages'. But somehow or other the extra supplies had to be found, or at least promised. At an early stage in the negotiations the Allies agreed that the programme should be for one year, and not for six months, as they had originally proposed.

Portugal was prepared to supply, in addition to the wolfram figures, 500 tons of tin, 300 tons each of sheep and goat skins, 1,700 tons of churra wool (half to be in the form of blankets), 4,000 tons of rubber, 12,500 tons of sisal, 120,000 tons of cork, and 1,050,000 cases of sardines. The explanation of the low tin figure was that there would be only this quantity available after deducting 500 to 600 tons for Germany (under an arrangement made in 1935), 400 to 500 tons for local consumption, and 500 tons for Spain, in exchange for tankers. Early in October the Ministry had news that the Portuguese might begin fresh negotiations with Germany for additional quantities of iron and steel goods if the Allies could not improve their offers; in which case the Portuguese would probably cut down the quantities of wolfram and tin to be made available to the Allies. On 10th October the British negotiators put forward their maximum supply offer, with the exception of a bargaining reserve of 7,500 tons of ammonium sulphate; the Portuguese were not willing to provide any more tin, but would grant export licences for stocks in return for extra sulphate of ammonia, 4,000 tons of cyanamide, and an extra 12,000 tons of iron and steel. The delegates, once more face to face on 15th October, claimed (on the Portuguese side) that the concessions asked 'meant for Portugal her very life', on the other that the supplies offered by the Allies 'represented our very life blood'. By 28th October the reserve of 7,500 tons of ammonium sulphate had been thrown in but the Portuguese were still not satisfied, and bit by bit further concessions were extracted from the Allies. Mr. Butterworth remarked on 3rd November that while the Allies had made continual concessions during the course of the negotiations, the Portuguese proposals remained practically as they were at the beginning, and in fact some of their proposals had even been lessened or withdrawn: the negotiations seemed to have reached 'a

stage of restricted bargaining on individual commodities which was not at all the spirit in which the United Nations had approached the problem'. However the matter was concluded by an exchange of notes on 23rd November. List 'A' of the agreement comprised the various commodities to be supplied by the Allies to the Portuguese, as follows:

Anglo-American supplies to Portugal

Coal	600,000 tons
Petroleum products (under conditions set out in the annex)	100,000-120,000 tons
Iron and steel products	25,000 tons. (Tinplate in accordance with the sardine contracts)
Copper sulphate	5,500 tons
Scrap copper	1,500 tons (or another 6,000 tons sulphate)
Wool	1,500 tons (as against churra)
Cotton	2,000 tons
Ammonium sulphate	20,000 tons (4,000 tons cyanamide might be substituted)
Cereals	reasonable quantities in accordance with the war-trade agreement
Codfish	export licences for 25,000 tons from Newfoundland, if bought in the open market there
Rubber manufactures	up to 240 tons
Tyres	up to 840 tons

There was also a list of commodities for Angola and Mozambique. List 'B', the commodities to be supplied by Portugal, comprised 500 tons tin metal (and export licences for Allied stocks as at 30th June); churra wool up to 1,500 tons, half as blankets (and an undertaking not to export any wool or products except to the Portuguese colonies); the entire exportable rubber surplus from Mozambique, Angola, and Guinea, after meeting Portuguese home requirements to the tune of 240 tons each quarter (in return for which the Allies would make available to the Portuguese tyres and manufactures according to the war-trade agreement quotas); the exportable surplus of sisal up to 12,000 tons and more after meeting the needs of Portugal and Spain; 120,000 tons of cork. Export licences would be granted for skins up to 150 tons each of sheep- and goatskins in a quarter (but none before 30th November); also for fish oil up to 1,050 tons. The figures for sardines remained at 1,050,000 cases. Both parties would grant export licences covering the commodities up to the specified quantities: exports of other commodities would continue to be permitted, and the import into Portugal of other supplies within the quotas approved in the war-trade agreement. With regard to transport, Portuguese ships should carry merchandise to the United States, and Allied ships goods coming from Britain.

(iv)

The War-Trade Agreement

The signature of the supply-purchase agreement enabled the British delegates at long last to complete the negotiations for a war-trade agreement. Colonel Fernandes' visit to London in March 1942 had done little more than reveal acute differences between the British and Portuguese interpretations of the unfortunate agreement of 28th January 1941. The one positive Portuguese contribution had been the declaration that all 'pre-blockade' stocks could be considered at an end. The Ministry had reciprocated by re-opening the quotas of colonial products and agreed to shipments up to the following figures:

Rice	2,000 tons
Sugar	7,500 "
Coffee	120 "
Tea	67 "
Copra	3,900 "
Sheepskins	50 "
Wool	860 "
Fish	540 "

After this it would be assumed that all C.E.D.U.P. stocks except cinchona and sisal would be at the agreed levels. But this hope was soon dashed, for news came from Lisbon of fresh evasions and equivocation, notably in the manipulation of dates to allow the export of sisal and castor seed in the *Ergo*. The Portuguese claimed that they were under an obligation to the Germans to allow these exports. This had the effect of adding to these stocks defined as 'pre-blockade' others known as 'pre-March 18th'. Meanwhile, during the summer of 1942, in the first talks over the new agreement, the Portuguese seemed in no hurry; they were able to hold up the proceedings 'in a quiet way by asking us, yes or no, whether we regard the agreement of 1941 as still in force'. The British Government was obliged to agree that it *did* regard the agreement as in force; to which the Portuguese countered that the question of 'similar products' was not a matter of interpreting the agreement but a new doctrine. Then followed a kind of continuous deadlock; United Kingdom navicerts for Portuguese colonial products were suspended, and Portuguese licences for wolfram and other Portuguese exports to the United Kingdom were withheld.

The British ambassador thought that 'it would be easier for a camel to get through the eye of a needle than to make this doctrine

of similar products acceptable to Dr. Salazar', but on his suggestion the Ministry agreed to open quotas during negotiations provided the Portuguese agreed to prevent the export of 'similar products'. An arrangement on these lines was made on 2nd June, although the Portuguese during the following weeks were able once again to allege bad faith by claiming that 'opening the quotas' meant opening *all* the quotas. Nevertheless the Portuguese Ministry of Economy did withhold licences for jam, various beans, soya, bran, olive oil, fish liver oil, fish meal, wax, hides and leather manufactures, wool and woollen manufactures; the export of fish oil and skins was also understood to be suspended during negotiations.

The purpose of the war-trade agreement was, as in other cases, to define the products and quantities that could be allowed to enter Portugal through the Allied contraband control in return for assurances by the Portuguese Government against re-export, and other counter-concessions. It was thought that in view of the more or less acrimonious nature of Anglo-Portuguese discussions on blockade questions since the summer of 1940 it would be better not to involve the United States in the squabbling. The war-trade and supply-purchases negotiations were nevertheless intimately linked, for the United States authorities took the view that a blockade quota implied an obligation to supply; the Ministry had never accepted this view, but had to take account of the fact that the chief suppliers of Portugal under the supply-purchase arrangements would be the Americans. In fact, therefore, the British negotiators had to secure both American and Portuguese agreement to the war-trade provisions. Although negotiations were held up for a time owing to Fernandes' pre-occupation with the wolfram agreement some progress was made over the question of similar products, and a list of quotas provisionally agreed with the Portuguese was sent to Washington at the end of August. A further draft was drawn up on 15th September; there was another delay during the later stages of the supply-purchase negotiations, but the war-trade agreement, in the form of an exchange of notes, was completed on 28th November. Some of the last skirmishes had taken place over the oil seeds quota; there was painful evidence that 'even the Minister of Economy and Colonel Fernandes had been reduced to using ground-nut oil in their households' for lighting and heating, on account of the scarcity of petroleum products. An extra-quota import of 5,000 tons of ground-nut oil was permitted to meet this emergency. The Portuguese Government did not announce the two agreements in the press, but gave publicity to press reports on the subject from London.

In spite of the very unsatisfactory wolfram situation the Ministry believed that the Portuguese had been more reasonable and co-operative during the last months of 1942, and there was hope that

they would prove increasingly accommodating in future. On the one hand the Allied situation was much brighter; the landing in North West Africa would not only strengthen Portuguese nerves and damp the ardour of Axis agents, but it might bring material advantages such as the supply of phosphates. On the other was the fact that the difficult Portuguese mixture of touchiness, calculation, and inefficiency which had produced so much friction over blockade issues could now end with the more precise definitions of the supply-purchase and war-trade agreements. A later chapter will show how limited was the justification for these premature hopes.

CHAPTER XII

FRANCE AND THE FRENCH EMPIRE

WHILE the British Government was applying its policy of regulated help with great pertinacity in Spain it was observing with some uneasiness the efforts of the State Department to conduct a similar policy in French North Africa. After June 1941 the greatest leak in the blockade was through the western Mediterranean and Unoccupied France. The Admiralty could not find the warships to intercept systematically the flow of supplies from French North Africa to Marseilles, and the Germans and Italians were believed to benefit to the extent of from 60 to 80 per cent. of these imports.¹ By the spring of 1941 British interest in blockade matters was shifting from Metropolitan France to the French Empire, although the general objectives of British policy remained unchanged. These were defined by the Committee on Foreign (Allied) Resistance on 18th April 1941 under five heads.

1. To ensure that the French fleet did not fall into Axis hands, and that the Axis did not establish bases for their armed forces in Vichy colonies.
2. To deny to the Axis supplies of foodstuffs, raw materials, and manufactured goods derived from or passing through France or the French colonies.
3. To keep alive and increase the spirit of resistance to the Axis in France and the French colonies.
4. To encourage organized and passive resistance and sabotage in Metropolitan France, etc.
5. To encourage French colonies, particularly North Africa and Syria, to re-enter the war on the British side.

The second of these aims was the direct concern of the Ministry of Economic Warfare, but it was interested in some measure in all five, for economic pressure was at this time the only effective weapon in British hands.

Each of the French possessions could in some way aid the enemy—by supplying contraband goods directly or through Metropolitan France, by propaganda, by the refuelling of submarines, or by the denial of supplies to British and American importers. French West

¹ E.B., i, 561-6, and chap. XVI generally.

Africa was a source of supply, particularly of ground-nuts, to France; the small French population was apathetic but pro-Vichy, and the pro-British elements in the native population could find little in the British record to encourage them. Although the blockade had been ineffective it could not be lifted since this would result in even greater benefit for the Axis. Madagascar (and Réunion) had also been little influenced by the blockade, and it had to be asked, whether, the 'screw' policy having failed, the 'carrot' policy should not be applied; in other words, whether it might not be advisable to relax the blockade in order to secure agreement to the introduction of agents who might swing the sentiments of the island, despite the strong anti-British views of the governor. The failure of the blockade in the case of Madagascar was due to the fact that the island was largely self-supporting, to the impossibility of stopping traffic in French ships travelling between Marseilles, Dakar, Madagascar, and Indo-China, and to the necessity of allowing the United States to take from Madagascar mica and graphite urgently needed for rearmament. The 'carrot' policy seemed, in fact, to have much to recommend it. If successful it would prevent the islands serving as a refuelling base and *entrepôt* for Axis shipping on the way to the Far East (the most important advantage), and would give the Allies use of them, besides giving the Free French movement and the Allied cause generally some much-needed political prestige. The United States was negotiating for increased purchases of graphite, and was prepared to send goods in exchange. Relations with French Indo-China were, as we have seen, governed by an informal agreement with Admiral Decoux covering trade, shipping, propaganda, and the like, but it was known that in such matters as the shipment of rubber and other industrial raw materials to Japan for Germany, Vichy was not living up to its provisions.¹ However, the Japanese occupation in July 1941 simplified the Far Eastern problem in this respect, although it was soon to intensify the problem of blockade running.

It was with the French possessions in the Caribbean that the Ministry was particularly concerned in regulating supplies to North Africa. After the German victory in 1940 the two islands of Martinique and Guadeloupe had been kept firmly in hand by their French governor, Admiral Robert, a tough and resolute Pétainist, who retained command of a number of warships, 106 American aeroplanes which had been on their way to France in June 1940, and 12 billion francs of gold which had been sent to Martinique from Canada just before the *débâcle*. The United States had taken the islands under its wing when it declared against transfers of New World territory from one non-American power to another; this refurbishing of the Monroe Doctrine had met with the approval of the other American states in

¹ See p. 94 above.

the Havana Convention of 30th July 1940. However, Admiral Robert had no more intention of submitting to the direction of Washington than to that of London.¹ The Ministry knew that a constant, if irregular, contraband trade was being carried on between the French West Indies and French ports in Europe or Africa. The State Department saw increasing danger in the possible use of the French ships, and after the Montoire conference spoke sufficiently firmly to Robert to secure, on 6th November 1940, an agreement whereby the United States was to supply food (paid for with French funds blocked in the States), and Robert allowed the United States to instal a naval observer at Port de France and to maintain a naval and air patrol. But this did not solve the problem of contraband, for the United States' ban on interception in the Caribbean remained, and the British attitude was undecided.² Originally, after the fall of France, the Ministry had wished to treat the French West Indies like all other Vichy colonies and to sever commercial relations between them and the British Empire and Allied countries. Nevertheless they had not been declared 'enemy-controlled territory', and were not included in the navicert area. The contraband traffic was not checked until two ships, the *Winnipeg* and the *Arica*, were intercepted in the early summer of 1941 by Dutch warships.³

Against this background the British Government viewed the problem of supplies to French North Africa, and agreed to a partial lifting of the blockade. In his attempts to maintain a link between the Vichy Government and the free world President Roosevelt had seen fit to send some relief shipments to Unoccupied France, and by the end of 1940 the State Department had gained approval for a more extensive supplying of goods to French North Africa. The two main principles of American action, which were presumably accepted as matters of high policy by the President himself, were, (a) the maintenance of the internal economy of the North African territories in order to avoid internal disturbances which would give the Germans a pretext for intervention, and the French a pretext for failing to resist such intervention; and (b) the demonstration to General Weygand that the economic life of the French North African Empire depended upon the maintenance of a supply-line across the Atlantic.

¹ W. L. Langer, *Our Vichy Gamble* (New York, 1947), pp. 103-4. This work is based on State Department papers.

² As Mr. David Eccles remarked during a discussion on North Africa at the Foreign Office on 27 November 1941: 'It had not been sufficiently clear either to them or to us what the other was expected to do.'

³ The interception created some problems. As the capture had been made by Dutch warships the two vessels should have been subjected to Netherlands prize law. There was some doubt, however, as to whether this would allow their condemnation. The *Winnipeg* was outward bound, and the Dutch had no equivalent of the Reprisals Order in Council. The Netherlands Government accordingly agreed that the cases should be considered by a British Prize Court, but on condition that this did not prejudice the ultimate location of the vessels. See p. 358 below.

The flow of supplies to Casablanca from the United States would in this argument give Weygand a strong card to play at Vichy against those members of the French Government who were working for a closer collaboration with Germany, and who could be told that any such developments would imperil France's relations with the United States and her access to the American market for the supply of her African Empire. Behind this was the remoter possibility that, in the event of further French surrender to Germany, Weygand might, with American encouragement, again take up arms against the Axis. With these ends in view an American diplomat, Mr. Robert Murphy, had agreed, in conversation with General Weygand on 26th February 1941, to the terms on which the United States would facilitate the passage of supplies to French North Africa. On 10th March Admiral Darlan, on behalf of the French Government at Vichy, agreed to the three American conditions of supply, namely:

1. No accumulation of surplus stocks in Algeria, Tunisia, or Morocco;
2. Consumption of the products imported and of similar products in French North Africa, and no re-exportation of these products under any form whatsoever;
3. Control by American representatives, in ports and on railways, of the above undertakings.

Mr. Murphy had made it clear to General Weygand that if the clause relating to re-exportation were violated, economic cooperation between the United States and French North Africa would cease *automatiquement et définitivement*.¹ The British Government did not object in principle to this agreement. It had already decided in November 1940 that in order to avoid the risk of internal trouble in Morocco limited supplies of green tea and sugar should be allowed to reach the Moors, and it was prepared to agree to further imports for the purpose of sustaining civil life throughout French North Africa.² Yet there was no field of economic warfare in which the officials of the two governments were to find themselves more consistently in argument—if not in dispute—and the essential cause is not really far to seek: it was simply that there seemed as yet to be no criterion on the American side by which to judge the desirability or otherwise of specific imports. It was the British view that while adequate supplies of consumer goods would be beneficial, imports should not be of such a nature as to sustain the productivity of the area as a source of German supply or to provide stocks which the French authorities would be tempted or forced to hand over to the

¹ W. L. Langer, *Our Vichy Gamble*, pp. 399–401. M. Weygand, *Mémoires: Rappellé au Service* (Paris, 1950), pp. 483–8.

² E.B., i, 567.

Germans. It also seemed desirable that the French should be required to prove their sincerity by supplying for Allied use some *quid pro quo* in the shape of goods likely to be of use to the enemy. The British embassy in Washington found that it was usually possible to reach agreement on these lines with Mr. Hull, with his European political adviser Mr. J. H. Dunn, and with Mr. Atherton of the European Division of the State Department; and no difficulty was found over matters which went to the White House for decision, so long as the aim of sending American observers was secured. But it proved difficult to keep the officials actually responsible for the execution of the policy in line with the policy decisions. This was particularly the case with members of the Near Eastern Division, which was traditionally responsible for handling the Moorish question and also Liberia. To the British it seemed that there was little contact between the European and Near Eastern Divisions, that the members of the latter were unduly sympathetic towards the Vichy embassy (with which they were in constant touch), and that they had little sense of the relative importance to the enemy of different goods exported from or imported into French North Africa. Their economic standards appeared to be those of normal peacetime commerce, and they certainly wished to secure a market for American goods, including agricultural machinery and automobiles.

The public mind in the United Kingdom was bound to resent a policy involving the despatch of important supplies to a French Government which had publicly stated its intention to collaborate with Germany, and it was difficult for the British Government to defend the policy publicly. Blockade considerations were, however, the most important. A large proportion of the foodstuffs which reached Metropolitan France from French North African territories went directly to the enemy, while the balance eased his problem of feeding France; but the problem, in the eyes of the Ministry, was not so much a matter of quantities of foodstuffs as of means of transportation and administration. All seaborne supplies from whatever source diminished the strain which the British Government was seeking to impose on the enemy's land communications, and in this sense the maintenance of the economy of North Africa might be of itself a contribution to the enemy's strength. More specifically, the British found themselves concerned over four points during 1941 and 1942. The first was that the guarantee against the re-export of American supplies to the enemy or the release of similar products from North Africa should be strictly observed. The second was that if the United States made freely available to the French in North Africa the products of her factories, French industry would be correspondingly freer to concentrate on supplementing the German war machine. The third was the question of oil supplies. The French merchant

ships, which continued to stream past Gibraltar under the escort of French naval vessels, were all fuelled from stocks in North Africa, and it was not easy for the British to allow further fuel oil supplies to North Africa through the blockade, particularly as it appeared during the course of the year that the oil blockade was beginning to impose a restriction on this traffic. Attempts were made, although without great success, to secure American cooperation for a programme which would make importations of oil dependent on the reduction of existing stocks to a figure sufficiently low to impose limits on blockade running, while allowing enough for legitimate defence requirements. It was also felt that as a proof of their *bona fides* the French in North Africa should apply the indigenous production of substitute fuels such as peanut oil and alcohol to the internal requirements of the North African territory. Furthermore, the extensive stocks of aviation petrol held in North Africa were a temptation to the enemy. The fourth consideration was that nothing should be left undone in the way of diminishing the supplies which the enemy was drawing from the French African Empire; any form of assistance which was likely to increase the exportable surplus was accordingly looked at askance.

The resulting discussions between the three governments were prolonged, exasperating, and intermittent, for American doubts about French intentions caused a number of delays. There were three lengthy interruptions following Pétain's collaborationist speech of 15th May 1941, Weygand's dismissal on 18th November, and Laval's return to office on 14th April 1942. After the conclusion of the Murphy-Weygand agreement there was an initial period of anxiety in Washington and London as to Germany's next move: there were rumours of a German advance through Spain, of the infiltration of large numbers of Germans into French North Africa, and of possible bargains between Darlan or Pétain and the Germans.¹ Rommel's counter-offensive in the Western Desert after 24th March 1941, the German successes in the Balkans during the next two months, and as we now know, the German preparations for war with Russia and Franco's refusal in January 1941 to agree to facilitate a German attack on Gibraltar, all combined to reduce the danger of an Axis occupation of French North Africa. A useful conversation, which somewhat cleared the air, took place on 5th April, when Mr. Hull asked Lord Halifax to bring Mr. Eccles for a talk on France and French North Africa. (Mr. Atherton and Mr. Murphy were also present.) Mr. Hull showed recent telegrams in which Admiral Leahy had been instructed to leave Pétain in no doubt that further acts of collaboration with the Germans would put an end to the policy of sympathy and help towards France which the United States Govern-

¹ Cf. Langer, pp. 112-14, 135-46; E.B., i, 566-70.

ment was pursuing, and repeated his familiar arguments for holding up the hands of Pétain as the one hope of keeping the German influence in France in check. He and Murphy both showed confidence in Weygand's assurances, and believed that he would resist a German attack if he could. The British representatives, to judge from Lord Halifax's telegram after the meeting, were not really convinced that the mere sending of some limited supplies to the French would make much difference to their attitude. 'I said that French public opinion might be the chief brake on pro-German activities of the Vichy Government and that I would not feel much confidence in the Marshal unless he felt himself pressed in the right direction by public opinion.' There was a similar, and more precise, reservation about the North African supply programme.

Eccles said that His Majesty's Government had abandoned the idea that French North Africa could be induced to re-enter the fight by the exercise of economic pressure, but they equally doubted whether the sending of supplies of a non-military nature and with only economic conditions attached would be enough generally to build up the will and ability of the French to resist. Therefore our policy was to help General Weygand on condition that he helped us.

Hull simply replied to this, that was what his own Government wished to do. Later in the day he gave instructions that the sole aim of the State Department representatives should be to arrive at the plan most likely to assist the British war effort. Halifax's conclusion was that Anglo-American joint action in North Africa was at least worth trying: Eccles, however, was to press for the maximum conditions to be attached to the offer.

By 20th April 1941 quarterly figures for all products for importation into French North Africa had been agreed by the United States Government and the French. The Ministry was not happy about certain items, but agreed that some preliminary shipments, representing about one month's supply, should be made, and should be debited against the total imports for the first quarter (1st May-31st July). This was in order to get the American observers into North Africa as soon as possible. Arrangements for the preliminary shipments were well advanced when reports appeared in the London press and elsewhere on 23rd April that Admiral Darlan had handed over to the Germans and Italians big stores of petrol accumulated at various bases between Tunis and the Libyan border, and on the following day Mr. Dalton telegraphed to Washington that the British Government could not agree to allow any oil shipments whatever to French North Africa unless the French were able to show that the report was untrue. Apart from this, shipping was the only obstacle to the sending of the preliminary supplies and the observers who

would travel with them. The Ministry had already on the 23rd made a strong point that the French had ample shipping available in European waters to carry all the goods covered by the agreement, without having recourse to French ships immobilized in American ports by legal action or through mere fear of interception. The Ministry hoped that in this way French shipping would be taken away from objectionable routes; at the same time the Ministry of Shipping looked forward to the day when the ships in American ports could be requisitioned for Allied use. The French, however, could only suggest for the voyage four ships in United States waters, namely the *Ile de Noirmoutier*, the *Ile d'Ouessant*, the *Sheherazade*, and the *Limousin*.

This issue evidently caused some exasperation in the State Department, and even in London the Ministry found itself pressed by the War Office, which was 'excessively anxious' that the observers should reach North Africa at the earliest possible date. Mr. Winant under instructions made strong representations. So on the 29th the Ministry retreated a step, and while maintaining its objection (on the oil issue) to the sailing of a tanker, the *Sheherazade*, suggested that in order to get the observers in as soon as possible there should be a preliminary shipment of goods other than oil in the *Ile de Noirmoutier*, and, if necessary, the *Ile d'Ouessant*. However, the State Department took the line that the reports of oil deliveries to the Germans were not proved, and that they could not be investigated until the observers arrived. They agreed on the 30th to hold the tankers pending a report from Mr. A. G. Reed, the Standard Oil Company's representative, who controlled the distribution of oil in North Africa; but in the meantime the Ministry had sent a telegram agreeing to the sailing of the tanker.

The Ministry thought that the State Department had been 'very difficult' over the *Sheherazade*, whose sailing was objectionable to the British for both oil and shipping considerations. There seemed no reason why the observers should not sail in the other two ships. One answer to this was that the sending from United States ports of three vessels not subject to legal restraint had been suggested by the French at the beginning of April and that the whole negotiation since then had been carried on on the assumption that there could be no objection to their use; Mr. Welles had personally given instructions to this effect. It was, however, promised that the tanker's cargo should be kept under supervision in French Morocco until the reports regarding the supply of oil to Germany and Italy had been investigated.

After this it appeared that it was only necessary to make the final administrative arrangements for the departure of the three ships with the preliminary supplies. On 9th May the Ministry received from Washington the draft texts for the supply of goods, in the form of a

letter from the French ambassador to Mr. Hull, and one from Eccles to M. Marchal of the French embassy in Washington. The assurances in the French ambassador's letter may be summarized as follows:

1. The French Government would ensure that the goods and similar products would be consumed in French North Africa and would not be re-exported in any form.
2. This undertaking would be controlled by United States representatives who would receive every facility for this purpose.
3. Purchases made outside the United States (except from Unoccupied France) would be deducted from the agreed quotas.
4. Any French ships at present in American harbours which might be permitted to engage in this trade would return to America within ten days of unloading their cargo in French North Africa.
5. No passenger or mail would be carried except in agreement with the United States Government.
6. A full list of cargoes carried on every ship leaving French North African ports would be communicated before sailing to the United States representatives. All ships bound for America would proceed direct and load no goods not produced in French North Africa.
7. The French Government agreed in principle to export 12,000 tons of olive oil to the United States during the following twelve months.
8. No cobalt or molybdenum would be allowed to leave Morocco in any form.

This, it will be seen, covered the three essential points: one ration only for the three territories; no re-exports; supervision by American 'observers'. Mr. Eccles' letter referred to these assurances and undertook to place no obstacles in the way of this trade on certain conditions; after some amendments by the Ministry and on the request of the lawyers of the State Department it read as follows:

1. Each consignment shall be covered by a navicert issued subject to the usual conditions. In the United States all applications for navicerts shall be made to His Majesty's consul general, New York City.
2. Goods purchased outside the United States will also be navicerted. If goods are shipped from countries where no British consul is posted, the master of the vessel will execute before the United States consul an affidavit as to the character and quantity of the cargo, which the master will carry with him as part of the ship's papers.
3. All ships engaged in the trade shall be French. Their names shall be communicated to the British embassy in Washington not less than three days in advance of the date of sailing. It is understood that no ship will sail without a ship's navicert, the issue of which

will be subject to a guarantee that the ship carries neither mail nor passengers. If, exceptionally, passengers are carried, the passenger list shall be approved in advance by the British authorities.

4. The ships engaged in this trade will ply direct in either direction between American ports and ports in French North Africa.
5. On return voyages from French North Africa to the United States, arrangements will be made to have the master of the vessel execute before a United States consul an affidavit as to the nature and quantity of the cargo, which the master will carry with him as part of the ship's papers.

The Ministry was not yet ready to accept United States' consular statements in lieu of navicerts, and it was extremely reluctant to waive its objection to the use of further French ships immobilized in United States ports. The French proposed on the 13th that 28 ships should be allocated to this trade, of which twelve would be drawn from French ships in United States ports and four from Argentina, while the remainder would be put in by the French from other sources. But the State Department, strengthened by the British views, would not consider this proposal, and decided to tell the French that if it was proposed to utilize tonnage immobilized in United States ports the French must be prepared to offer some shipping *quid pro quo*, either in the form of releasing Allied shipping in French ports or by contributing to Anglo-United States tonnage. It was assumed that the four French ships earmarked for the preliminary shipments were already allocated to the Atlantic trade.

And then the negotiations were suddenly suspended. A speech by Pétain on 15th May 1941 confirmed the fact that, as a result of recent negotiations between Darlan and Hitler, the Vichy authorities intended to intensify their collaboration with Germany, and the practical meaning of this collaboration was immediately illustrated by the landing of German aeroplanes in Syria on their way to Iraq. The United States Government at once protested vigorously, placed armed guards on all French ships in United States harbours, and took steps to prevent any United States ships from proceeding to French colonies unless the specific approval of the State Department had been received in each case. The British interception of the *Sheherazade*, which had sailed on 12th May, followed.¹ The tanker had slipped out of the area of United States control by only two hours, and it was on the request of the United States Government that the interception took place; on the 18th Sumner Welles's attitude, in conversation with Lord Halifax, was one of 'warm approval' of British action. It appeared for the moment as if the United States

¹ This incident, and some of the complications arising from it, has already been referred to in E.B., i, 504-5.

Government had decided to abandon all hope of dealing with Vichy, and there was talk in the State Department on the 17th of withdrawing Admiral Leahy and making separate and individual offers of economic collaboration to each territory of the French Empire according to need. However, Murphy was instructed to see Weygand as soon as possible, and in the meantime the British were asked not to unload the *Sheherazade*; and when Murphy's report was received it was found to contain the assurance that French Africa was not directly affected by the arrangements made recently at Vichy in connexion with Syria and other matters. On this basis the Americans decided that it would be worth while to continue their efforts to secure Weygand's cooperation.

The situation was discussed in London on 26th May, when Mr. Eden pointed out that some of Weygand's assurances appeared unsatisfactory, and that there was some danger that supplies to French North Africa might be used against the Free French. The Prime Minister, however, doubted whether the consignments which the Americans proposed to send were of great consequence, and he did not, on the whole, feel disposed to take a very stiff line with the United States Government on the matter. After Mr. Dalton had pointed out that 13,000 tons of oil on the *Sheherazade* could not be regarded as harmless it was agreed to accept the American proposal in general, with a warning that there was a risk in the case of certain cargoes. On the 29th the State Department proposed that the *Sheherazade* should be allowed to proceed, but that 5,000 tons of petrol and 300 tons of lubricating oils should first be removed.

Mr. Dalton agreed with reluctance. 'It will, I think, be a very great pity, and will fidget Parliamentary and public opinion here, if the State Department now insist on her resuming her interrupted voyage,' he wrote to Mr. Eden on 1st June. On 3rd June the Minister of Shipping, Mr. Leathers, wrote strongly to Mr. Eden to support the view that the tanker should not be released. By this point, however, Mr. Dalton had decided that he must agree to the release on the American terms. Later it was found impracticable to remove the oil, and she was allowed to proceed to French North Africa with a full cargo of petroleum products; 2,000 tons of her cargo were, however, to be unloaded at Dakar, before she went on to Casablanca. She was delayed after release in leaving Bermuda, because one of the United States observers which she was carrying had absented himself on pleasure in a remote part of the small island. She got away finally on 25th June.¹ The tanker *Lorraine* sailed from Marseilles on the same day and passed Gibraltar westward bound on 29th June.

¹ In his memoirs Weygand gives thanks to both Governments for their conciliatory dispositions towards French North Africa (Weygand, *op. cit.*, p. 488). He comments in similar terms on the *Sheherazade* sailing (p. 489).

Two shipments of goods other than oil were to take place early in July, and in each case two further French ships were to leave the Mediterranean for the United States. On 3rd June the French ambassador in Washington had sent a further note to the State Department on the question of the shipments to North Africa; it had differed somewhat from the earlier draft, but as it only covered shipments urgently required instead of the regular quarterly shipments it was more convenient from the British point of view—it made it easier for the Ministry to postpone decision on embarrassing proposals, such as the release of immobilized French shipping.

For the next five months, during the decisive phase prior to the entry of the United States into the war, the discussions about North African supplies continued. From the Ministry's point of view they were not different in essentials from the now very familiar routine of deciding quarterly rationing quotas for the European neutrals, although to many officials of the Ministry the whole programme was distasteful. In Washington on the other hand the State Department seems to have regarded with suspicion the British objections, which had to be made in accordance with the normal rationing procedure, to individual items or quantities; what was no more than the routine objection to proposed imports which were in excess of normal requirements or likely in some way to benefit the enemy was regarded at times as faintheartedness, even as deliberate attempts at sabotage. There were various moments of high tension as a result; at the end of June, for example, when the North African question was reopened, the Near Eastern Division was discovered to be in a state of exasperation with the British, convinced that the recent delay to the sailing of the *Sheherazade* had been due to British obstruction, and threatening to ignore them and go on alone. They were with difficulty persuaded that it was on the request of the State Department that the tanker had been intercepted.

The volume of goods that could reach North Africa under the shuttle service was limited by the shipping restrictions, and these were insisted on by both the British and the United States Governments. Neither government was prepared to sanction the further use of French ships tied up in United States ports unless corresponding ships were released from Mediterranean or North African ports. Accordingly the full quarterly quotas, which represented the maximum quantities that the two governments were prepared to allow, could not be met, and this circumstance somewhat lessened the anxieties of the Ministry, while it disappointed the Near Eastern Division. Nevertheless, a number of difficult problems had to be tackled during these months.

One of these was the limited barter trade between Spain and Portugal and French North Africa, which the Ministry wished to

encourage and which the State Department found distasteful; the United States officials held, rather unconvincingly, that the exchanges would detract from the effectiveness of their own programme. The Ministry saw little point in this objection in view of the small quantities involved. In the case of Spain a new barter agreement was negotiated with French Morocco early in June 1941 and submitted to the Ministry for approval.¹ Objections to certain items were not made in Madrid until 19th July, when the agreement had already been initialled. The Spaniards were much upset by the delay, and suspected ulterior motives; but the explanation was partly the suspension of discussions in Washington but mainly, it would appear, mere oversight in London. However, the Ministry insisted that the quantities of potash (23,000 tons) and pyrites (15,000 tons) that the French wished to import were excessive, and that these must be reduced to 5,000 and 1,500 respectively. It also could not allow any petroleum imports in view of the strong line on oil that it was taking in Washington and also because, in theory at least, Spain, under rationing, should have none to spare. Imports of phosphates into Spain were accordingly cut to balance the reduction in potash and pyrites, and the agreement was completed on these lines. It was to last until 31st December 1941; all ships employed were to be Spanish; the list of Spanish exports to Morocco was not to be augmented without British approval. Spanish imports consisted of phosphates and antimony; and certain quantities of beans, wheat, barley, millet, and livestock were to be imported by Spanish Morocco from French Morocco. Spain was to send potash, pyrites, lead sheets, chemicals, turpentine, colophony, woollen textiles, glass bulbs, bicycles, shoe leather, beer bottles, stud donkeys, and salt.

Proposals for a barter agreement between Portugal and French Morocco also took concrete form in June, with British agreement in principle; the Portuguese list of proposed exports was sent to Washington on 28th July. The State Department objected that it wished to see the North African quotas filled either by the United States or by other countries in the Western Hemisphere. Eventually it yielded on certain items, but not without some hard words from high quarters in Lisbon. 'Dr. Salazar apparently ended by expressing the opinion that an Anglo-German compromise was better than the imposition of American Imperialism.' An agreement was signed between French Morocco and Portugal on 23rd August, and accepted by the British on the 26th. It provided for an exchange of 18 million escudos' (72,000 tons) worth of phosphates from Morocco against 9,000,000 escudos' worth of wool and 9,000,000 escudos' worth of cotton textiles (225 tons) from Portugal. The agreement would run

¹ It will be remembered that an earlier barter agreement between Spain and French North Africa had been concluded in 1940. E.B., i, 545.

until 31st December 1941 and would be renewable. French shipping was to be used for the traffic. By October the French Government were seeking to extend the system of barter agreements to Algeria and Tunis; it favoured the Iberian trade because of the transport problem. Every time a French vessel was put into the New York-Casablanca service permission had to be obtained from the Armistice Commission, whereas if goods were shipped in Spanish or Portuguese vessels to French North Africa, or in French vessels of a size too small to cross the Atlantic, no such approach had to be made. But the French initiative caused fresh complications, for when the lists attached to the latest version of the Franco-Spanish agreement were received on 16th October the Ministry found that they included provision for the export by Spain of certain goods which the United States was proposing to supply. On this ground the Ministry objected to glass bulbs, bicycles, and matches.

Oil, however, was the main problem at this stage. The list of quotas for the last quarter of 1941 was discussed in Washington in September. The British objected to the supplying of spare parts for automobiles and suggested that these, like tyres, should be made dependent on a special undertaking by General Weygand not to hand over motor transport to the enemy for use in Libya. (Reports had been received that 1,000 lorries had been transferred to German use.) It was also proposed to suppress the quota for coal, which was being supplied in large quantities from Metropolitan France, and also that for tractors and agricultural machinery, in view of the extent to which the French motor industry was working for Germany. On the question of oil, however, the Ministry had to suffer defeat. The problem had been taken up with the State Department in August, when the Ministry had objected to the sending of a cargo of fuel oil on the ground that naval stocks in French North Africa were large and should be depleted. Furthermore the French had failed to implement their guarantee that the earlier tanker should turn round immediately after discharge and return to the western Hemisphere. At first the Americans had admitted the strength of the Ministry's case, but subsequently insisted that a consignment of fuel oil must be sent. They believed that otherwise the attitude of the Armistice Commission would jeopardize the success of the whole North African programme: this conclusion had apparently been drawn from a temporary refusal by the commission to allow further ships to sail on the shuttle service. The discussions continued into September, when the United States Government, without warning the British, informed the French that the tanker *Lorraine* would be allowed to sail with 7,500 tons of fuel oil. The Ministry had no alternative but to agree, and navicerts were accordingly issued for 7,500 tons of low-grade fuel oil and 1,000 tons of fuel oil to be used on

the shuttle service for bringing Algerian cork to Casablanca, together with 6,500 tons of kerosene. The ship was also allowed to carry a small quantity of motor gasoline for the use of the United States embassy at Vichy. This method of dealing with oil shipments, which meant that a good deal of administrative stone-walling on the British side was countered by a series of *faits accomplis* on the American, led to some plain speaking which cleared the air a little; the State Department however refused to issue a statement to the American press which might have helped the British Government in facing strong parliamentary criticism. Discussions followed with a view to the drawing up of an agreed programme of more or less harmless shipments which would not take place until the North African stocks of the different oil products had been reduced to a safe level. The French embassy asked the State Department for quarterly oil shipments of the following amounts: motor gasoline, 28,000 tons; kerosene, 13,000 tons; gas oil, 33,000 tons; fuel oil, 20,000 tons. These figures were considered in London, and on 21st September the Ministry replied suggesting the following quarterly quotas: kerosene, 10,000 tons; diesel oil, 12,000 tons; low grade gasoline, 20,000 tons; fuel oil, 5,000 tons. No final decision could be reached, for while the matter was still under discussion in Washington shipments were suspended following Weygand's dismissal, and the United States Government did not again contemplate oil shipments until June 1942.

The French, who were doubtless aware of the more accommodating attitude of the State Department on blockade questions, had not been easy to tie down on questions of shipping and contraband. In March 1941 the State Department had begun to urge on the British embassy the desirability of some measure of trade between Martinique and French North Africa, and a few days later gave particulars of arrangements which had been made in 1940 for the supply of oil and credits to the French West Indies. The credit was to pay for imports, which were not to be re-exported. This provision had not been kept, and the Department protested to the French embassy in blunt language on 4th April 1941. A fairly satisfactory arrangement was made on 11th April with Admiral Robert, who agreed to limit the use of the facilities granted by the United States Government to economic necessities alone for the Martinique-Guadeloupe-Guiana group. These terms, which were not given to the British embassy until 1st May, nevertheless contained a number of loopholes from the blockade angle and it was disappointing that the State Department was not prepared to press for the appointment of a British consul at Martinique. It did, however, recognize the right of the British to intercept French ships east of the Antilles, a valuable

point in view of American sensitiveness about contraband control in the Caribbean. The crisis which followed Pétain's statement held up the discussions for a time, and on 17th May Mr. Hull told Lord Halifax that he 'hoped we should be looking after French merchant shipping in the three West Indian islands', and that Admiral Robert was 'very pro-German'. However, on the 18th Robert gave an assurance that he and his Government intended to maintain the *status quo* as regarded the French fleet and French gold in the West Indies; and the State Department recovered speedily from its shock with a tendency to blame the British for the interruption. When the French ships, the *Winnipeg* and the *Arica*, were detained (the first on 26th May, the second on 3rd June) the State Department 'commented adversely', and Mr. Noel Hall 'explained the difficulty of keeping operational matters in harmony with American official opinion when this is subject to rapid change at frequent intervals'. The British Government was not prepared, in spite of some pressure from the U.S. Navy Department, to agree to the return of the two vessels.

However, the arrangements about the West Indies produced no serious Anglo-American differences, and it was only the difficulty of securing French agreement that delayed their completion. The Ministry agreed in principle to some measure of trade between the French West Indies and North Africa, and its main concern was to secure that approved ships sailing from the French West Indies should be covered by ship navicerts. It reserved its right to intercept and examine any ships which were not so covered. On this point the Americans were still rather unhelpful, but they rejected in unequivocal terms the attempts of the French representatives to argue that the object of the discussions was to arrange for trade and communications between the colonies and Metropolitan France. Letters were finally exchanged between French and British representatives in Washington on 18th August. The British agreed to the carrying in exceptional cases of goods other than of North African origin destined exclusively for consumption in the French West Indies; to the passage of civil and military officials *de carrière* and their families; and to the carrying on each ship of one sack of official mail, strictly limited to French official correspondence. Navicerts were to be applied for to the British consulate-general in New York, and, in the absence of a British consul at Martinique, the U.S. consul there would be responsible for the general procedure for the issue and checking of navicerts. On this basis the traffic restarted, with sailings of the *Fort de France* from the French West Indies, and the *Mont Viso* and *Mont Agel* from Casablanca.¹

¹ In practice these arrangements were largely ignored. Notification of sailings and other information was seldom given. The Americans did not agree to the issue of navicerts by their consul in Martinique.

What was the French *quid pro quo*? The British and United States were both anxious to remove certain commodities from the French African possessions in order to increase their own stocks and deny supplies to the enemy: graphite and mica from Madagascar, cork, cobalt, and manganese from North Africa, and ground-nuts from West Africa were the outstanding examples. Throughout the summer it proved difficult to tie the French down to specific promises and figures; with regard to olive oil, cobalt, and molybdenum, the French ambassador would only say on 3rd June that these matters 'font actuellement l'objet d'un examen attentif de la part du Gouvernement français'. The U.S. consul in Casablanca telegraphed to say that there had been great competition for cobalt and molybdenum between the Germans, Italians, and Japanese, but that the French authorities had given orders stopping their exportation. As worded, the telegram gave no assurance as to the future.

300 tons of cobalt at Nemours were particularly tempting, and Murphy telegraphed to say that the Germans, while showing no interest in molybdenum, were making strong efforts to secure the cobalt. General Weygand was 'resisting as well as he could'. A friendly French official suggested to Murphy that Weygand's hand would be strengthened if the British gave formal notice that every attempt would be made to intercept the cobalt if it were shipped across the Mediterranean. However, Lord Halifax wisely rejected this advice: such a warning might be regarded as a precedent for assuming that voyages in respect of which no such warning was given would be condoned. Until the middle of November, when Weygand's dismissal seemed for a time to end the possibilities of control, the Ministry continued to press the Americans to take a strong line about these two commodities. Alcohol was also a source of anxiety. After the arrival of the *Sheherazade*, the French said that they still wished to export 5,000 tons of alcohol from north-west Africa to Metropolitan France; they argued that their agreement to discontinue the export after the arrival of the tanker had been upset by the Anglo-American action in detaining the ship in May. Some officials in the State Department were disposed to think that it would be advisable to allow this shipment in order to facilitate the delivery of some of the 12,000 tons of olive oil which the French promised orally. But after very strong protests from the British embassy the State Department said on 18th July that the question would be allowed to sleep.

A further problem which found no solution in 1941 was that of the supplying of oil seeds to France from French West Africa. The principal produce of this area was ground-nuts, of which the annual surplus was about 450,000 tons; in 1940 almost the whole of this surplus had been shipped to France, and it was known that the Germans had taken a high proportion, thereby materially lessening their

deficiency in fats. Early in the year, when the Americans had proposed to extend the supply-observers policy from North to West Africa, the British Government had refused to consider the proposal, for it still had some hopes that French West Africa could be brought over to the Allied side by forcible means. On 5th May however a Foreign Office telegram agreed that the situation in West Africa called for more immediate remedy, and the State Department instructed Murphy to tell Weygand that as the transport of ground-nuts from Senegal depended on imported oil for transport, supplies of imported oil would depend on the stopping of the ground-nut traffic. The discussions were then interrupted as a result of Pétain's speech, and after their resumption nothing so far-reaching as a solution of the ground-nut problem was possible for a time. The *Sheherazade*, as we have seen, was allowed to unload 2,000 tons of gasoline at Dakar as a means of getting two United States observers into West Africa. No further supplies were sent, and in August a report from one of the observers at Dakar said that the Governor, General Boisson, was not interested in economic aid, as he did not wish to place himself under obligation to the United States. Interest in the problem revived in August, associated it appeared with an intervention by Mr. Morgenthau, and the British embassy now pressed for authority to propose the pre-emption of the ground-nut crop by the United States, arguing that it was inexpedient to let the initiative pass once again 'to the weaker brethren in the State Department'. Although the Ministry gave its approval no decisions were made, although informal talks with the French commenced in Washington. Weygand's dismissal then held up progress once again.

Thus it was difficult to avoid the conclusion that the genuine differences between the two Governments were no more than tactical, and arose from the fact that the State Department was too much concerned with the overall political effect (which it overrated) of the Murphy agreement to be able to appreciate fully the more precise and immediate advantages and disadvantages which were being considered in London. All the British efforts were directed towards increasing the balance of advantage to Anglo-American interests rather than to ending the arrangement. On 19th October 1941, just prior to a visit to London, Mr. Noel Hall told Mr. Welles that fundamentally the two Governments were as one on the North African policy, but that the British had a special preoccupation with supplies in view of the reports that were coming in of delivery of motor transports to Germans in Libya and of wheat and wine to the Italians; there had also been substantial deliveries of olive oil. The difference of approach was clearly seen in the conversations which took place

between Mr. Murphy and Mr. Eccles from 2nd to 5th November at Tangier. Murphy was rather pessimistic, asserting that a strong section of the State Department was against the North African policy through fear of United States entanglement in the war, whereas the President and those supporting the policy had 'put their shirts on Weygand'; Eccles on the other hand was particularly concerned to make the system of observers more efficient. After closely questioning Murphy he came to the conclusion that the observers were learning their job but were still inadequate in both numbers and training from the economic-warfare point of view. Washington had never supplied them with questionnaires of the type of information that they were required to collect; more money and also dumps of American cigarettes, tea, stockings, and other suitable presents were needed in order to buy information; adequate secretarial staff was lacking. Later, at a meeting at the Foreign Office on 27th November, he spoke rather more pessimistically about the observers; he thought that they and Murphy himself found the essential details of economic-warfare work uncongenial, and conceived their mission to be that of establishing personal contacts with leading French soldiers and statesmen.¹ Eccles was, however, a convinced supporter of the American policy in North Africa and was in favour of encouraging Weygand by taking 'small risks from the blockade angle', advice which the Ministry found unconvincing. In a letter to the Foreign Office on 17th November 1941 it said that 'we have no confidence in him [Weygand] or he in us, and both sides know it'; there seemed, therefore, no advantage in taking risks when allowing supplies into North Africa, and even the development of Moroccan-Iberian trade would need caution, since, 'incredible as it may seem, it appears that the Americans suspect us of designs to build up a Western Mediterranean tariff block'.² On 9th November the Ministry, feeling that the North

¹ Langer (p. 197) quotes from a memorandum by the European Affairs Division of the State Department of 28th November 1941 which claimed that the Economic Accord had been of great intelligence value to Britain and the United States. This seems to have remained an article of faith with the leading American statesmen (cf. *The Memoirs of Cordell Hull*, ii, 1162; Admiral Leahy, *I Was There*, p. 133). General Eisenhower's comment was unfavourable (*The White House Papers of Harry L. Hopkins*, ii, 648).

² This letter, from Lord Drogheda to Mr. (now Lord) Strang, referred to M.E.W.'s doubts about the political and military advantages of economic enticements, and drew from Mr. Strang on the 18th November a complaint that Mr. Eccles had had no authority to concern himself with political matters, which were the concern of Mr. Gascoigne, the consul-general at Tangier. The letter added, 'the Secretary of State is also rather disturbed to notice the extent to which, as would appear from your letter, the Ministry of Economic Warfare are taking in hand the political and politico-military aspects of our relations with North Africa'. The incident is worth quoting as an example of the fact that it was not only in Washington that the blockade created conflicts of administrative interest. There was some justification for Lord Drogheda's reply on the 19th that blockade risks and the question of contact with the American observers were matters in which the Ministry was vitally interested, although 'we do not of course presume to deal with matters of pure policy which we recognize are your concern and not ours'. The real problem was that the blockade involved both political and economic aspects, so that both departments complained at times about the other's encroachments.

African policy was approaching a crisis, decided that the Americans should be invited to take stock of the situation, and to agree on a more carefully thought-out future policy. This prefaced several formal consultations with all the interested Divisions of the State Department headed by Mr. Dunn, in which the British representatives took the line that in order to stiffen the French against German pressure they should be kept strictly to their undertakings; and with this view Mr. Dunn agreed.

When General Weygand was dismissed on 18th November 1941 from his post as Delegate General the State Department made an immediate *volte face*, and suspended all economic assistance to French North Africa on the afternoon of 20th November; whereas the British embassy advised against hasty action. Many American officials felt that all was over with the North African programme: the Near Eastern Division, its policy now in jeopardy, was glad to use the British advice inside the Department as a basis for saying that the British wished the programme to continue. The Ministry in an attempt to keep in line with American policy, immediately gave instructions that facilities for shipment under the Spanish and Portuguese barter agreements must also be suspended; but by 25th November the State Department had recovered from the immediate shock and decided that there was no objection to the continuance of these shipments on a day-to-day basis. The Ministry acquiesced with a sigh, and an unkind, but perhaps not unfair, comment: 'how nice it would be if one day the State Department were to think out a policy before acting, and having done so, were to stick to it'.

The British Government favoured the continuation of supplies. A minute by the Prime Minister, dated 30th November 1941, read as follows: 'I think it most important that the United States should continue their relations with Vichy and their supplies to North Africa and any other contacts unostentatiously for the present. It would be a great mistake to lose any contacts before we know the results of the Battle of Libya and its reactions. There is always time to break but it is more difficult to renew contacts.' Instructions in this sense were sent to Washington by the Foreign Office on 3rd December, and the Ministry took the opportunity to put forward a comprehensive plan as a contribution to the more systematic approach that it had desired in November. It suggested the negotiation of a barter agreement under which unimportant supplies would be let in more or less unconditionally, but more important supplies would be in exchange for the whole of the exportable surplus of important materials which might otherwise reach Germany. It was argued that if Vichy accepted, the economy of French North Africa would be deflected from Metropolitan France and the Axis and an excuse found to retain the American observers in North Africa; if,

as seemed likely, Vichy refused there would be a reason for not resuming shipments without new conditions, and for undertaking direct negotiations with the French authorities in North Africa. The Ministry had persuaded itself that the latter might be willing to discuss these proposals. The Foreign Office supported the plan, which continued to be pressed by the British representatives in Washington on suitable occasions for the next six months, although the State Department never liked it. In a paper of 16th December 1941, drawn up for the perusal of the President during the Arcadia conference in Washington, Mr. Churchill advocated a campaign in French North Africa, with 'ample supplies for the French and the loyal Moors' in the meantime as a means of winning goodwill.¹

Towards the end of December the State Department also decided that some resumption of shipments was desirable, and Vichy was so informed. Oil, however, was not included, and formed an important item in the anxious discussions which continued between the three Governments; in the meantime other traffic was on a limited scale. There was no serious attempt in December to bargain; Vichy was told that the *Leopold L.D.* and the *Ile de Re* would sail for Casablanca provided that the *Ile d'Ouessant* and the *Ile de Noirmoutier* set out simultaneously from Casablanca for the United States with cargoes of cork. No demand was made for the inclusion of either North African cobalt or Indo-Chinese rubber, which had reached Casablanca in the blockade runner, *François L.D.*² On this basis two more shipments were in fact made from each side in February, 1942, and the tanker *Frimaire* left for the United States in ballast at the same time. But early in the month, reports came of the French supplying of Axis forces in Libya, and the United States Government held up supplies again until April. Thus there was really no reckless generosity in the American programme. The State Department clung to its basic assumption that the maintenance of the observers and the wire to Vichy was sound policy, but found it hard to agree on anything else. The Near Eastern Division still worked vigorously for the full supply programme, and seemed more intent on working with the French embassy than the British; it usually sought agreement with the French embassy before approaching the British. But other elements in the State Department were more critical of French conduct, and the blockade considerations, which had been in the minds of some of these elements in 1941, were now being put more and more

¹ W. S. Churchill, *The Grand Alliance*, p. 575.

² This French ship arrived at Casablanca on 28th October 1941 with a cargo of 6,500 tons of rubber and probably gold from Indo-China, and the captain had been decorated for his exploit with the Order of Maritime Merit. It was intended to send the rubber to Nemours and thence to France. The State Department was anxious in November to stop the rubber from reaching France and offered to buy it. It warned Weygand that the British would intercept any vessel carrying the rubber.

trenchantly by both the Board of Economic Warfare and the Board of Economic Operations of the State Department. The former, indeed, was shocked at the concessions made by the Ministry on the oil question in the previous November.

The boldness of the British barter plans seems to have staggered the State Department. Its objections were varied: there seemed no chance that the French North African authorities would agree to the proposal; the United States was not able to provide the large shipments that the programme would require; in any case shipping would not be available. During January 1942 the embassy felt that it would be pointless to press the matter further at the moment, for the State Department was not in a mood to carry the proposition to its logical conclusion, that is, to impose an embargo on North Africa if the French refused the offer. However, on 17th January the State Department sent a strong note to Admiral Leahy complaining of the rubber shipments and hinting that the United States attitude on supplies would have to be reconsidered if these shipments continued. This and the confidential news that the French embassy was putting forward to the State Department further proposals for shipments led the Ministry to the conclusion that a further attempt must be made to arrive at a general agreement with the Americans, and at the same time increasingly circumstantial evidence of French help to the Axis forces in Libya convinced the President himself that a crisis was pending. On 5th February he told Mr. Churchill that the Americans might not be able to remain much longer in North Africa, and he sent a strong warning to Pétain that unless he received official assurances from the Vichy Government that no military aid would go forward to the Axis forces in any theatre of war, Admiral Leahy would be recalled for consultation.¹ Supplies were accordingly again suspended, and the State Department invited the British embassy to discuss the whole position.

There is some evidence that the concessions made by Darlan and Pétain were intended as a sop to the Germans after more extensive demands, including the cession of bases in French North Africa, had been refused.² The French put the argument from time to time that in their precarious position some relatively minor concessions to the enemy were inevitable and expedient. To the Allies, however, help to the Axis at this stage seemed too varied and brazen to be so easily condoned. There was, for example, the latest instalment of the story of the *François L.D.* There had been 6,500 tons of rubber on this

¹ Langer, p. 235, giving text of the President's draft message to Mr. Churchill, 5th February 1942.

² *The Ciano Diaries*, in entries under 7th December, 29th December 1941, and 20th January 1942 (pp. 415, 426, 437), shows that Italy wished to have the use of Tunisian ports, and that Hitler refused to agree; also that the Vichy terms were 'excessive'. Cf. Langer, p. 207.

vessel which the Americans had offered to purchase in November 1941. The offer had not been accepted and 3,500 tons had been shipped to Marseilles, while the other 3,000 tons remained in North Africa. Of the 3,500 tons, 2,000 had been used to pay back deliveries of crude rubber made by German industry to France, and it was argued that this payment was merely intended as compensation for an earlier advance. The remaining 1,500 tons was to provide for the immediate requirements of French plants for which stocks were nil.

Particularly serious however was evidence which was reaching the Ministry of Vichy collaboration in the supply of war material and food to the Axis forces in Libya. There was an increasing use of French shipping for the carriage of supplies from France to Tunisia, whence they were sent by rail or sea to Libya; this service, which was believed to have started in November 1941, now averaged two sailings a week. Five ships (*St. Germain*, *Nantaise*, *Bourgaroni*, *St. Etienne*, and *Flaçais Kabyle*) were reported to be sailing between 26th January and 10th February, 1942, four loaded with Italian lorries, one with 1,000 tons of provisions and the other with 1,500 tons. Oil deliveries included, among the latest reports, 2,000 tons of gasoline sent in December and 1,600 tons of gasoline and 2,000 tons of aviation spirit up to mid-January. A report of 31st January said that nine tank-car trains had passed through Tunisia from Algeria with some 1,000 tons of gasoline for Libya. During 1941 between 1,600 and 2,000 lorries and private cars were dispatched to Libya, the lorries coming from depots in North Africa. There had also been reports since October 1941 of monthly deliveries of 4,000 tons of wheat to Libya, and a similar amount to Italy; at the end of January 1942 the Italian Commission was reported to have demanded 35,000 tons of wheat for delivery in the future. There were reports of substantial deliveries of wine and olive oil.¹ These supplies to Libya were of painful immediate interest to the British, locked in desperate battle with the Axis forces, while the Royal Navy flung its deadly blows at Italian shipping.² But it was also important to check the considerable help to German industry which was given by such vital war materials from French North Africa as wool and skins, cobalt, manganese, molybdenum, and rubber. It was estimated that the German requirements for cobalt during 1942 would be 510 tons, excluding large quantities needed if further synthetic fuel plants were installed. Should Germany be deprived of certain sources of cobalt, she would be entirely

¹ From a memorandum dated 7th February 1942, of the Services Cooperation Department, M.E.W.

² Mussolini sent some supplies in hospital ships. Ciano noted (19th May 1942), 'his experience has taught him the many things it is possible to hide in hospital ships when the blockade would otherwise prevent their passage. Last winter we were able to deliver some timely supplies of gasoline to Bengasi by making use of white ships' [ships of the Italian Red Cross]. *The Ciano Diaries*, p. 488; cf. p. 519.

dependent on the North African supplies, the production of which amounted to 800 tons a year. It was also thought that the progress of the war in Russia might cut the Germans off from supplies of manganese; in that case the Axis, whose requirements in 1942 were estimated at 650,000 tons, would be forced to rely on North African production, which was between 70,000 and 100,000 tons but could be rapidly developed to furnish 350,000 per annum. The estimated European supplies were not thought to be sufficient to meet Germany's annual requirement of 3,000 tons of molybdenum, so that the French North African production of 200 tons was likely to be of considerable importance. North Africa was also thought to be the most important potential German source of wool and skins.

In the light of this formidable evidence and in response to the State Department's request the embassy presented a memorandum of 7th February 1942 setting out the British views. It said that the British Government still attached great importance to the problem being put to the French on big lines (the barter proposal); but if by these or other means supplies from North Africa could not be diverted from the enemy then it was to the Allied interest to keep this area poor. The discussion with the State Department was, however, postponed for some weeks, for the United States Government was now taking a strong line over the question of French supplies to Libya. The hostility of the State Department to de Gaulle, the inevitable counterpart of its faith in Pétain, had been accentuated by the occupation of St. Pierre and Miquelon by Free French forces under Admiral Muselier on 24th December 1941, and this incident further complicated the United States Government's involved process of readjusting its external policies to the new fact of belligerency. The gloomy news from the war fronts in January, the desire to carry through the Pan-American policy at Rio and maintain the *status quo* in the West Indies, strong popular opposition in the States to the 'appeasement' of Vichy, and the tendency of the Near Eastern Division to swallow at its face value the alarmist reports of the French embassy—all these were bound to confront the President and Mr. Hull with some real dilemmas of consistency. The many factors involved in the decision stretch far beyond the field of economic warfare, and it must suffice to say that the advocates of plain speaking to Vichy had their way for the moment. Lord Halifax told Mr. Welles that the United States Government was apt to underestimate the real strength of its position *vis-à-vis* Vichy, for French public opinion would never forgive Vichy for promoting a breach with the United States; and whatever the strength of the Vichy Government's annoyance with Admiral Muselier's action it could be replied that the situation had been entirely changed by the perfectly

disgraceful behaviour of the French in lending support to the Axis in Libya and by recent efforts of Admiral Decoux to cooperate with the Japanese in Indo-China and the southern Pacific. He believed that a much stiffer attitude on the part of the United States Government would at this stage be highly beneficial. Mr. Welles made some comments on the difficulties that his Government had occasionally experienced from certain British authorities (not the Foreign Office), and the benefits which he thought that the British had gained from the American policy of keeping Vichy in play for the last year and a half; but all that was now water over the dam, for in view of recent developments the United States Government was in fact going to adopt a tougher policy.

Darlan had admitted to Leahy at the end of December 1941 that some gasoline had been sent to Rommel; he claimed that this action was necessary to prevent a German occupation of Morocco. He made a further admission of 9th February 1942, very much minimizing however the extent of the French deliveries. Roosevelt's demand for assurances under threat of a recall of Admiral Leahy followed, and there was silence for some days; the State Department was greatly alarmed, and feared that Vichy was deliberately delaying its reply in order to complete arrangements for cooperation with the Germans. On the 16th, however, a note from Pétain repeated the statement of the 9th; it said that only 1,029 tons of food and 56 trucks had been supplied to Libya in January, that no war materials or liquid fuels had been sent, and that London had launched a campaign of criticism on entirely false information, to find a scapegoat for British defeats in Libya.¹ The note promised that France would maintain her neutrality; otherwise it was so clearly an attempt to evade the admission of the obvious facts that the President made renewed demands for assurances on 19th February. On the 24th Pétain in a written reply reaffirmed his Government's intention to maintain the position of neutrality which it had assumed under the armistice agreement.

President Roosevelt, who did not want a breach if it could be avoided, was not prepared to accept Leahy's proposal of some precipitate action such as his recall,² and during March the State Department accepted the assurance of 24th February at its face value and sought a satisfactory basis for a partial renewal of shipments. On 5th March Leahy, in reply to the note on 24th February, said that the United States considered shipments of food, fuel trucks, and other supplies to Axis forces as constituting military aid; the resumption of supplies could not be considered until the French

¹ A paraphrase of this note was given to the British embassy on 21st February. See also Langer, *op. cit.*, p. 234.

² *Ibid.*, p. 236.

Government had given a satisfactory reply on (a) shipments of supplies to the Axis; (b) removal of the *Dunkerque*; (c) the visit of German submarines to Martinique. Darlan gave the required assurances on 14th March with the exception of the delivery of remaining balances of food supplies and trucks, the transportation of which would soon be completed. He added that the French Government had appealed to the Axis to be allowed to cancel the delivery of petroleum products of French origin beyond the exacted quantity of 3,600 tons, and a satisfactory reply had been given. Vichy then offered to approach the Axis again to secure a cancellation of the delivery balance (about 1,580 tons) if it could be said the American oil supply would be resumed.

The State Department was now satisfied that things had advanced so far that the possibility of some resumption of shipments could be contemplated, and on 19th March the general discussion with the British embassy, which had been postponed in February, took place. The British representatives referred to their memorandum of 7th February and to the importance which the British Government still attached to the programme being put to the French on big lines, and the proposal was received less unfavourably than they had expected. Mr. Dunn said, however, that the President was taking a personal interest in the matter and hoped that shipments on a small scale would be resumed in the very near future; it would be tactically a mistake to put forward proposals for a larger scheme, for the French themselves were now so short of everything that they could be relied on to ask for more as soon as the limited shipments were announced. The British members did not dissent from this view, although they felt that it was essential to get away from the vagueness of earlier arrangements and in particular to incorporate in new agreements with the French the previous verbal and unkept promises about the non-export of cobalt, molybdenum, and the like. It was agreed by Mr. Dunn and his political advisers, with the evident dissent of the Near Eastern Division, that this line should be recommended. The course of action to be proposed to the White House was that the French should merely be told that one sailing in each direction was to be permitted, and in the meantime the State Department and the embassy would work out the basis of the proposed barter agreement.

The Ministry was in the meantime examining Darlan's replies, and considered that it would be a great mistake to allow the French to manœuvre the Allies into the position in which Vichy could claim the right to deliver further oil supplies to the Axis in Libya if for any reason it could argue that the American supply of oil to North Africa had been discontinued. Before this point could be raised the United States Government, without further notice to the British

embassy, told Leahy on 25th March that the sailings should take place; but the State Department appears to have accepted the British view that all oil deliveries to the Axis must cease before the two ships were allowed to leave the States. They had in fact still not sailed when Laval returned to power on 14th April. The shipments were then again suspended, and it was not until mid-June that the State Department decided once again to try to refurbish its North American programme.

In this final phase of the North African discussions the economic-warfare problem was found to have greatly changed, for the supply programme had increasingly to be visualized as a short-term preparation of the field for the Allied invasion. This was of course a closely guarded secret and it appears that in Washington it was successfully withheld from the Board of Economic Warfare.¹ In London the Ministry received hints which were difficult to evaluate, although before the end of July it was following, in agreement with the Foreign Office, the policy of acquiescing in the Americans' plans while pointing out their possible economic dangers. The immediate cause of this change in the British approach was not however the decision to invade French North Africa (which was not taken until 14th July), but the intervention of the U.S. War Department in June: its support for the North African programme was so out of keeping with its attitude of uncompromising hostility to the supplying of the European neutrals as in itself to suggest that a new strategical importance had been given to the North African policy.

During April and May the British embassy in Washington had favoured a much less retiring attitude. The appointment of Laval had been received more calmly by the British than by the Americans, and there was indeed some anxiety in the Ministry lest the United States authorities might react too sharply. Mr. Wyndham White, of the British embassy, was in London at the time on his way to a meeting with Mr. Murphy; it is evidence of the British Government's desire to keep the North African programme going that he was instructed to proceed to Tangier, and it was only because the State Department on 21st April thought that 'undue inferences might be drawn' that the plan for a meeting was abandoned. By the beginning of May the Near Eastern Division was again recommending the continuance of the supply programme; but while Mr. Hull desired this he was, according to the British embassy's information, 'too nervous'

¹ Langer, *op. cit.*, (p. 268) admits that 'insufficient guidance was given the B.E.W. with regard to the ultimate objectives of American policy', although he adds, 'to be sure, one might think that by August 1942 almost any high official in an American war agency should have had an inkling of our intentions with respect to North Africa'.

to take the initiative in proposing it, and was prepared to give sympathetic consideration only if the proposal were 'raised by any other than a United States Government Agency'. The reasons for Mr. Hull's 'nervousness' are not entirely clear. The most probable explanation is the state of public feeling about the Vichy Government in the United States, but it is also true that relations with the French embassy were strained as a result of the recall of Admiral Leahy for consultation and of the current American negotiations with Admiral Robert in Martinique, against which Laval objected. And it must be remembered that the conflict of jurisdiction between the State Department and B.E.W. was at its height.¹ Mr. Wallace, the Chairman of B.E.W., was also not prepared to take the initiative in raising the matter for the time being.

The War Trade Department wished to seize the initiative which had thus been unexpectedly offered it, and so be in a position to shape the French North African policy 'in accordance with our own more realistic views'. Lord Halifax telegraphed a strong recommendation of this course to the Foreign Office on 31st May. Although nothing came of this recommendation it throws an interesting light on the real purpose of British policy. The British were as anxious as the Americans to maintain the observers and the link with Vichy; it was the Near Eastern Division's continued indifference to blockade considerations that the embassy regarded as unrealistic and dangerous. As this section of the State Department had hitherto been entrusted with the carrying out of the policy, it had been difficult to appeal to other officials and sections who had a better understanding of the economic problem; but if the embassy could now come forward with a plan it could present it to those best suited to handle it, while at the same time earning the goodwill of the Near Eastern Division, which was anxious to get the programme stated again. A programme which at the moment no one wanted to put forward had already been sketched by the Board of Economic Warfare, with the support of the War Department and the Office of Coordinator of Information; it involved the shipping to North Africa of 1,500 tons of sugar, condensed milk, kerosene, and cotton cloth for the use of the native population, and it was proposed that these goods should be put up in small packages each plainly labelled with the United States flag and a statement of American origin in English, French, and colloquial Arabic. In return B.E.W. would attempt to get from North Africa approximately 1,500 tons or two cargoes of cork, wool, hides and skins, olive oil, tartar, and red squill. The plan was tentative; it was not certain that the American goods would be available or that the French goods would be welcome to the Raw Materials Board. But a British initiative, putting forward this plan with suit-

¹ See above, pp. 54-5.

able modifications, would have the full cooperation of the Raw Materials Division of the State Department, which was anxious like B.E.W. to examine pre-emptive possibilities. It might also serve a wider purpose.

We have used the concept of the strategic importance of stabilizing the Western Mediterranean arena as the main justification for an unpopular Iberian policy whilst the Americans have used similar arguments to over-ride our restraints on their North African policy. We should, I suggest, now seize the opportunity which has been presented to us for showing that we are looking at the Western Mediterranean as a whole and are working on broad and consistent lines. The way may then open for us to guide the French North African policy on the same basis as the Iberian policy with such modifications as may be necessitated by the greater Axis domination of the former area.

But neither the Foreign Office nor the Ministry responded to this suggestion, and on 12th June Mr. Hull once more took the lead.

He had been forced to do so because of the precarious position of the observers: the German representative on the Armistice Commission had demanded on 1st June that in view of the continued failure of the United States to resume the sending of supplies to North Africa, the American observers should be reduced to the consular establishment of January 1939, although the numbers could be restored if supplies were resumed. The British embassy understood that the War Department had not merely approved of shipments but had insisted on action. It had already given its support to the B.E.W. plan mentioned in the last paragraph, and as a result the transaction had been described to the British officials as 'a military operation of an economic nature'. Mr. Hull accordingly proposed the resumption of the supply programme, and discussions with the French embassy recommenced; it was in the course of these discussions during the next fortnight that the British decided that the military-strategical aspect of the programme was becoming paramount. It must be remembered that Mr. Churchill was in Washington at this time, and that he and President Roosevelt had again examined the possibility of an Allied landing in North Africa, which they had discussed in December 1941.

The Ministry's first reaction to the new supply plans was on traditional lines, for there were again obvious weaknesses from the blockade angle. The Americans offered to supply kerosene if the French would guarantee that no cobalt or molybdenum would henceforth be shipped from North Africa and if existing stocks were frozen for the duration of the war. Barter agreements on other commodities were hinted at. The Ministry, while it welcomed this relatively firm attitude, asked the embassy on 19th June to make it

clear to the State Department that it would prefer that no oil except possibly kerosene should be shipped at all. There was always the danger that the Germans would put irresistible pressure on the French to deliver to Libya either imported oil or locally produced substitutes: the only way to prevent a repetition of the shipments to Libya of the previous winter was to maintain the present acute shortage. It also thought that the mere prohibition of the export of cobalt and other products was not a satisfactory safeguard.

But Lord Halifax decided that it would be unwise to make a formal approach to the State Department on these lines, and in a personal telegram to Mr. Eden on 1st July he called attention to the prominent rôle of the War Department in the decision to resume the North African programme. The Ministry's views would be kept before the State Department and the B.E.W., and he was confident that the latter would apply a sufficient brake to ensure that no great harm was done to the blockade. It was better that the brake should be applied from within the U.S. Administration. Another telegram said that the Defence Materials Division had also advised against a formal approach, on the ground that the only effect would be that the question would be discussed in the 'highest quarters of the Department' where the point at issue would not be fully appreciated.

These tactics were acceptable in London, although they did not of course imply any abdication of interest in the North African programme. They were compounded of a belief that economic-warfare considerations were becoming of less urgency than the military-strategical in this area, and a realization of the fact that where economic-warfare issues had still to be fought there were now United States agencies with the knowledge and opportunity to do the fighting. During July, at any rate, the British view was that the Board of Economic Warfare was taking the right line, and was if anything too yielding.¹ At the end of June it was proposed that two French vessels should sail from the United States, and the shipments would include, in addition to general cargo, 6,000 tons of coal and 1,500 tons of kerosene, partly in drums and partly in the vessels' tanks. The general cargo included cotton piece goods, leaf tobacco, copper sulphate, and raw sugar. The justification of the kerosene was that it was urgently needed for lighting and other purposes, and that small shipments would have great propaganda value, without any serious damage from the blockade point of view. B.E.W. and the State Department had agreed. This shipment was independent of the proposals about a barter deal based on cobalt and molybdenum, which had been suggested in June. The Blockade Committee in

¹ Mr. Hull (*The Memoirs of Cordell Hull*, ii, 1162) says B.E.W. 'interfered incessantly'; Langer, that it 'persisted in its errors till the very end' (p. 268), and remained 'unchlightened and unregenerate' (p. 269).

London felt bound to voice objections to some of the proposals. The total proposed yardage of cloth—10 million—appeared very high; woollen as well as cotton piece goods were included; the enemy had serious deficiencies and even the smallest supplies would be welcome. The items included enough whipcord (13·27 tons) to make 30,000 summer coats for the Afrika Korps; 60,000 yards of khaki jean and 280,000 yards of khaki twill and drill; nearly 50,000 yards of blue denim of the type of cloth used in the British army for overalls; 160,000 lbs. of cotton yarn, at a time when France and Germany were almost devoid of this type; 807,000 yards of what was apparently pure woollen broadcloth, enough to clothe 160,000 men with tropical coats. A summary of these objections was sent to Washington on 2nd July. The Ministry continued also to regard the kerosene plan with misgiving, but in view of the ambassador's recommendation gave instructions for the issue of navicerts for the 1,500 tons on 8th July. Investigation showed that no wool broadcloth was to be included in the shipments, but that six lots of so-called cotton piece goods consisted of Honduras and overall twills of army type. The B.E.W. accordingly ordered that these should be unloaded; the French protested that the goods were over-stowed, and that unloading and re-loading would take ten days; this would make it impossible for the ships to sail on 20th July, the date fixed by the Armistice Commission. The British embassy thereupon agreed to their going forward on a hold-back guarantee to Casablanca.

The final stage before the invasion of North West Africa on 8th November 1942 need not detain us, for the British Government was not disposed to refuse agreement to further shipments, although it continued to make the point—which some of the Americans found so hard to grasp—that the sending of consumer goods to win goodwill was compatible with the blockade purpose of denying supplies which might be of ready and substantial value to the enemy. B.E.W. seems to have been more insistent in its objections, owing partly no doubt to the fact that as late as the beginning of October Mr. Wallace, the titular head of B.E.W., had still not felt able for security reasons to tell even Mr. Milo Perkins that the invasion was pending.¹ It was this inability of the Near Eastern Division, and apparently even of Mr. Hull, to recognize that these legitimate blockade considerations were not simply an excuse to sabotage the whole Vichy programme, which is the real and simple clue to the long story of Anglo-American tension over this issue. The Combined Chiefs of Staff in London agreed to the African invasion on 24th July, and on the 29th President Roosevelt gave somewhat vague instructions

¹ Langer (p. 270) who records this point, nevertheless thinks that B.E.W.'s attitude was 'altogether incomprehensible'. The B.E.W. historians, Gordon and Dangerfield, unfortunately do not make any comments on the North African policy.

that the State Department should continue the present arrangements for sending consumer goods to French North Africa for local consumption. But this still left open the decision as to what constituted consumer goods. Kerosene, for example, as the B.E.W. representatives pointed out, might be innocuous or it might be used as a fuel for tractors, and they were anxious, therefore, that the fuel should be sent in smallish containers (apparently of glass) and distributed by the American Red Cross.

There still seemed no case for sending other oil products in large quantities. The Ministry, in agreement with the Foreign Office, made a further statement about oil on 21st July, pointing out that if the enemy were forced to retreat to Libya, stocks in French North Africa would be of critical importance; in the event of an Allied landing, oil stocks would facilitate resistance; and if, before an Allied invasion, the territory were kept short of oil, supplies brought by the invaders would have a good effect on native morale. Accordingly, oil shipments were undesirable. The Joint Planning Staff telegraphed in the same sense to Washington, and in due course the Combined Planning Staff submitted a paper to the Combined Chiefs of Staff recommending that shipments of oil and associated products to French North Africa should be discontinued, and that shipments should be confined to the minimum of non-military supplies necessary to maintain the position of the observers. The United States Chiefs of Staff, however, would not accept this because of Admiral Leahy's¹ intervention with the news of the President's desire for the existing arrangements to continue, and a deadlock followed after a meeting on 3rd August when B.E.W. asked pertinent questions as to what exactly this involved. The British naturally asked the same question. During August it appears to have been agreed that it might include kerosene shipments up to 1,000 tons a quarter, in glass containers; B.E.W. seemed willing to go up to as much as 14,000 tons of consumer goods a year, in return for a really valuable *quid pro quo*. It had taken over the earlier British plans for preclusive buying, and hoped at one stage that exports to the Axis could be reduced by 50 per cent.² The final stage in the discussions as far as London was concerned was its agreement to the despatch of a further cargo of kerosene and to an American proposal to talk to the French on the lines of the British oil figures of 20th September 1941. It also agreed to let the French have the military textiles that were being held under the hold-back agreement at Casablanca.

¹ Leahy was now Chief-of-Staff to the Commander-in-Chief and presiding officer of the Joint Chiefs of Staff organization. He gives a brief account of this episode in his memoirs, and seems to think that B.E.W. and the British were objecting to all shipments. Fleet Admiral Williams D. Leahy, *I Was There* (London, 1950), pp. 137-8.

² Langer, p. 266.

There are a few observations that we must make about this confused and embarrassing issue. One is that the supplies that reached North Africa were not in fact very large. The complete record down to July 1942 is set out in the following tables.¹

Traffic from the United States to French North Africa

(i) SAILINGS

	First voyage (1)	Second voyage	Third voyage (2)
<i>Ile d'Ouessant</i>	30 July 1941	29 Nov. 1941	16 July 1942
<i>Ile de Noirmoutier</i>	24 July 1941	29 Nov. 1941	16 July 1942
<i>Leopold L.D.</i> (3)	8 Nov. 1941	11 Feb. 1942	
<i>Ile de Re</i>	14 Nov. 1941	16 Feb. 1942	
<i>Frimaire</i> (tanker)	— March 1941		
<i>Sheherazade</i> (tanker)	25 June 1941 (4)		
<i>Lorraine</i> (tanker)	15 Oct. 1941		

(1) Dates of arrival in Casablanca.

(2) Dates of sailing from New York.

(3) Replaced by *Aldebaran* for second voyage.

(4) Sailed Baton Rouge, 12 May '41; sailed Bermuda 25 June '41 for Dakar.

(ii) CARGOES

(*m. tons*)

	1941	Feb., 1942	July, 1942 (1)
Condensed milk	1,316	76	—
Sugar	14,000	5,116	4,620
Tea, black	180	55	—
Tea, green	927	102	—
Tea, unspecified	300	—	—
Tobacco	1,258	205	350
Copper sulphate	200	100	544
Insecticides	—	—	0.88
Pharmaceutical products	1.09	0.47	—
Cotton piece goods	2,444	1,498	1,900 (approx.)
Cotton yarn	—	—	73
Sisal binder twine	1,134	—	—
Jute sacks	178	—	—
Ready made clothing	1	0.27	—
Coal	10,815	4,313	6,000
Coke	896	—	—
Pitch	1,106	1,608	—
Paraffin wax	700	—	—
Iron wire	382	45	—
Galvanized wire	50	—	—
Nails	106	245	0.41
Spare parts for agricultural machinery	5.5	—	—
Petroleum products:			
Gas oil	12,232 (<i>Frimaire</i>)	—	—
Motor gasoline	5,018 (<i>Sheherazade</i>) (2)	—	—
Gasoline	5,517 („)	—	—
Kerosene	5,763 („)	—	—
Lubricating oil	803 („)	—	—

¹ These tables are based on figures prepared by the Statistics Section of M.E.W., 6th August 1942.

	(m. tons)	Feb., 1942	July 1942 (1)
	1941		
Bunker 'B' fuel oil . . .	1,001 (Lorraine)	—	—
Bunker 'C' fuel oil . . .	7,490 "	—	—
Kerosene	5,472 "	—	—
Gasoline	15 "	—	—
Kerosene			1,500

(1) Probable cargoes. The table was compiled before final details of sailings had been received.

(2) This was the original cargo of the *Sheherazade* before she was intercepted. She was later allowed to sail to North Africa, but the United States agreed to reduce her cargo by 5,000 tons of petrol and 300 tons lubricating oil. No record is available as to whether this was actually done.

The same ships made return voyages to United States ports, with cargoes mainly of cork (the chief item), squill, tartar, and wine.

There was also no doubt about the impoverishment of French North Africa, and the usefulness of the Murphy agreement. It could produce (in return for supplies) some genuine or calculated gestures of friendliness or gratitude on the part of the local French and native populations; it might encourage the French authorities to take a more independent attitude; the observers might make themselves useful in various ways. But it was also easy to lose sight of the fact that this influence could never be but a minor factor in the situation. Even the limited degree of independence that Weygand had displayed in 1941 had produced his recall. In a letter to Mr. Wyndham White of 12th May 1942, Mr. Murphy remarked, 'I am disappointed over the limited success of the program. I feel that we missed the boat during the Weygand régime. If the American program had worked out successfully in a really important way, I think his position would have been almost invulnerable. The results he attained under it, however, were so small that it became a weapon in the hands of his adversaries, who said it was nothing but a Trojan horse. It did, however, succeed in bolstering Weygand's own resistance to the Axis in this area over a period of months.' But it is difficult to see how, in the circumstances, the programme could have worked out in 'a really important way' without disproportionate disadvantage to the Allies. The British Government asked for a *quid pro quo* as a proof of French, but really of German, 'sincerity'. The intervention of the Armistice Commission, which controlled French shipping, prevented such sales with the exception of cork and some minor items. The United States Government was thus left in the last months of 1941 with an import policy based on a scheme of quotas which would undoubtedly please the local populations if carried out fully, but would also provide stocks and an exportable surplus which might benefit anyone but the local populations. The British took the view, which Mr. Murphy apparently shared, that in time the French might have been able to persuade the Germans to agree to increased

French sales to the United States. He thought, however, that the best way to bring this about was to establish the regular American deliveries under the 1941 quotas first. The Ministry's view was that the barter deal should come first; failing that, only the minimum of consumer goods necessary to maintain the observers should be given.

This was a matter of tactics. But in the flow of oil to Rommel's forces, in the problem of the *François L.D.*'s rubber, and above all in the massive stream of foodstuffs and phosphates from the French African colonies to Germany via Unoccupied France there was strong support for the British view that the French authorities—both in Vichy and North Africa—would give the Germans what they asked. Even the most ardent supporters of the French North African supply programme had to admit that the bulk of the imports into Unoccupied France were going to Germany, which depended on French North Africa for phosphate fertilizer, for about 60 per cent. of its supplies of cobalt, and for useful supplies of high-grade, non-phosphoric iron ore.¹ The Tables in Appendix II of this volume give the fullest figures of imports into French Mediterranean ports that were available to the Ministry at this period. The 1942 figures include over 1,000,000 tons of phosphates, 200,000 tons of iron ore, 20,000 tons of manganese ore, and 140,000 tons of oil-seeds and ground-nuts for the period from January to August.² The British were surely right in their broad assumptions that 'dangerous' commodities from North America might reach Germany, and, on the other hand, that economic inducements alone would not cause a defiance of Germany or the Vichy Government.

In the last analysis the economic programme must be viewed in its broader political and strategical setting, for both the British and United States Governments were thinking throughout in terms of French resistance. After the rebuffing of his invitation to Marshal Pétain of 31st December 1940 to renew the war against Germany from the North African base,³ Mr. Churchill expected less of the Vichy Government than the Americans appear to have done; there was never much confidence in Weygand. Accordingly the British Government took Weygand's dismissal and Laval's return to power less tragically than the State Department, and advised against precipitate action which would lead to the expulsion of the observers. In December 1941 Mr. Churchill was already contemplating, in discussion with President Roosevelt, an eventual landing in French North Africa, and thought it desirable to maintain contacts under the agreement; but he and all the British Government's advisers saw little point in sending more than the bare minimum necessary for

¹ Langer, p. 266.

² See pp. 669-72 below.

³ W. S. Churchill, *Their Finest Hour*, pp. 550-1; E.B., i, 561.

this purpose without an economic *quid pro quo*. So, paradoxically, the British were more consistent supporters of the Murphy agreement than were the Americans. The British were not only not opponents of the agreement; they were probably not even the chief opponents of the more 'unrealistic' aspects of State Department policy, particularly in relation to oil. Even as early as November 1940 the Economic Adviser to the State Department had opposed a trade agreement with French North Africa, and from the autumn of 1941 the Board of Economic Defense (Warfare) and the State Department's Board of Economic Operations were opposed to risks on blockade grounds. When discussions were renewed in May 1942 the War Trade Department of the British embassy soon came to the conclusion that it could safely leave these American officials to check any unwise lavishness in the selection of supplies.

We may fittingly end the first part of this volume with the North African landings, for it was at this point, with the British, American, and Russian forces passing to the offensive in every field, that one Allied leader cautiously announced the possible end of the beginning, and the other, a little more boldly, thought that the turning-point had at last been reached. Apart from the general psychological effect of the successes, the Allied occupation of French North Africa during the first five months of 1943 had some immediate practical effects in the economic field; it cut Germany and Italy off from all supplies (other than smuggled goods) outside Europe and Turkey, lessened the amount of foodstuffs that Germany could safely take from France, exposed Italy's economy to more intensive attack (thus indirectly creating a drain on German resources for the defence of Italy), and made enemy shipping in the Mediterranean very much more vulnerable. But in another sense it was a disappointment; often the turn proved to be no more than a slow and ungraceful wriggle on the part of the European neutrals who were now so confidently expected to fall into the Allied arms. We can, then, say that the economic war was entering its final phase at the end of 1942. But the transition was neither dramatic nor abrupt.

PART II

The Final Attack

December 1942-June 1945

CHAPTER XIII

GENERAL SURVEY

THINGS were beginning to go wrong for Germany in 1943, but not too rapidly; we find Hitler in his economic directives savage but not unduly perturbed, grimly accepting disasters but ready with expedients. 'Germany must sacrifice her blood for the war' he told Speer on 8th January 1943. 'Of France heavier economic tasks, than hitherto, must be demanded . . . At the slightest sign of sabotage the severest action is to be taken. Any idiosyncrasies about humanity are entirely misdirected.' In the spring there were some encouraging signs. He expressed his thanks to the admirable Speer in March for a successful copper campaign; he noted that the performance of the Sherman tank was not very satisfactory, and cunningly arranged for it to be mildly praised in the neutral press; on 10th April he was pleased with the munitions-production figures; on 1st June he told Speer that he was impressed, in view of the air-raids, by the 'comparatively favourable production results' for ammunition output, and he signed a decree authorizing the Reich Transport Minister to confiscate tram-cars. But on the same day he had also to consider depressing news of damage to the Ruhr and of fuel shortages, and from this point onwards the problem of finding materials and labour and putting both to the best use preoccupied him more and more. 'With regard to coal, we simply must not allow ourselves to be beaten by circumstances. Coal is the very foundation for the maintenance of our production and of the whole national economy.' The food of German miners and Russian prisoners of war must be improved; armament workers in the Government-General must be fed according to the German ration scale. In August production schedules for machine tools, buildings, equipment, and plant had to be put back in order to relieve the shortage of materials for the current armaments production, and there were plans to carry Portuguese wolfram in transport planes if Spain interfered with transit. In October he had to face a call-up crisis: to take 70,000 people monthly out of the armaments industry, as had been suggested for November, December, and January, would be possible only by including mining and all trades connected with the war; and on top of this it was necessary to build up a reserve of 130,000 people (as far as possible already trained men) to deal with 'catastrophes'. On the other hand he was soothed on 6th December by assurances from Speer that the production figures for the fourth quarter of 1943 for

steel, worked out with special regard to the shortages of alloy-materials, would largely be attained.¹

Although these intimate discussions were unknown to the Allied economic-warfare agencies their assumptions about German plans and anxieties, based on the known facts of German war economy, were in general accurate enough. They rightly assumed that the turn in Allied fortunes at the end of 1942 in three major fields—Southern Russia, the Pacific, and North Africa—meant the beginning of a final stage in which Allied attack would be the keynote in every field. In an outline of its plans for 1943, drawn up by the Ministry of Economic Warfare on the eve of the Casablanca Conference, the principal economic objectives of Allied strategy were summarized under eight heads.²

In the West

1. To press the air attack on Germany's industry and transport;
2. To attack Italy's war potential in order both to assist in destroying her resistance and to create an economic and military drain on Germany, which in turn may facilitate the attack on economic objectives there;
3. To cut Germany's sea communications with the Far East;
4. To harass Germany's sea communications around the coasts of Europe;
5. To develop in occupied countries, and especially in France, by all means short of inciting them to premature revolt, resistance to German exploitation and control;
6. To develop our influence over neutral countries so as to deny their resources to the enemy and secure them for ourselves;
7. To increase the economic demands on Germany of her European allies.

In the East

8. To cut Japan's sea communications with Europe and to hamper her communications with the territories she has occupied; in particular to destroy her merchant shipping, especially tankers.

The statement may be compared with the six aims of economic warfare strategy put forward by Lord Selborne in March 1942.³ A linking of German-Japanese military and economic forces now appeared improbable, and action in this connexion could be limited to the prevention of blockade running; on the other hand the destruction of Japanese war economy, which unlike Germany's was vitally de-

¹ References in this paragraph are to the Speer (Hamburg) Documents, under the following dates: 8th January 1943; 11th March; 11th April; 1st June; 8th August; 19th October; 8th December.

² 'Economic War in 1943. Memorandum by the Minister of Economic Warfare'—31st January 1943.

³ See above, p. 15.

pendent on overseas supplies, could now be seriously visualized. In Europe too the self-defensive note had disappeared from the Ministry's programme, and all the emphasis was now on varieties of attack: by air against German and Italian transport and industry; at sea against her coastal communications; by diplomacy against her sources of supply in adjacent neutral territory; and in occupied territory by the encouragement of resistance. Here was certainly a more self-confident note than that of the previous March, and there was plenty for the Ministry to do.

It was not, however, called on to play any very prominent part in the Allied discussions of higher strategy at this stage of the war. In 1942, when invasion of the Continent was impracticable, the 'indirect strategy' of blockade, air operations, and subversion still had a leading place in the Anglo-American plans as an exception to an otherwise defensive programme.¹ The British strategical plan for 1942, put forward at the Arcadia conference in December 1941, had assigned to economic warfare the leading rôle in the policy of 'wearing down and undermining German resistance' which would accompany the process of 'closing the ring' and be the indispensable preliminary to offensives on the Continent. In this formulation we may still detect a tendency to exaggerate the immediate effectiveness of bombing and blockade or at least to make the most of whatever offensive weapons the Allies could muster: nevertheless, economic attack, even if it could not win the war, was rightly valued as a means of 'softening up' the enemy before the great invasions took place.

After the successful launching of TORCH in November 1942 there followed the series of high-level conferences in 1943 (Casablanca, Washington, Quebec, Cairo, Teheran) in which Mr. Churchill, President Roosevelt, and their advisers elaborated, and argued over, their invasion plans; and while it would be outside the scope of this volume to examine the differing conceptions of the Allied leaders in any detail it is important to notice how small a part economic warfare appears at this stage to have played in this strategic planning. General Marshall and the United States planners showed throughout a more single-minded devotion to a landing in North-West France (OVERLORD) than the British, who were rightly convinced that the Anglo-American resources were too limited for this enterprise in 1942, and that there were many advantages to be gained in 1943 from following up the Allied victories in North Africa with operations in Sicily, Italy, and possibly other parts of southern Europe. It would not perhaps be an unfair summary of the British case to say that while Mr. Churchill and the Chiefs of Staff never rejected the need for

¹ See above, p. 17; John Ehrman, *Grand Strategy, V*, (H.M.S.O., 1956), p. 4.

OVERLORD in some form or other they also never lost sight either of its practical difficulties or of the need for confusing and dividing the Axis forces by the widest possible range of threatened landings: and that this led on the American side to the fear that what were ostensibly diversionary operations in the Mediterranean might develop into the main Allied attack with OVERLORD as the subsidiary or diversionary theatre. The United States Chiefs of Staff, who had already had some mental reservations in December 1941 about the British plans for the peripheral or softening-up activities which were to precede an invasion,¹ seem to have found in the plans for RANKIN, which Lieutenant-General F. E. Morgan and the COSSAC staff were ordered to prepare in April 1943, further grounds for uneasiness. RANKIN was a plan for 'a return to the Continent in the event of German disintegration at any time from now onwards with whatever forces may be available at the time'.² Although the COSSAC staff found some difficulty in interesting themselves in so academic an assignment the mere existence of the plan seems to have strengthened suspicion that the British wanted to reduce OVERLORD to the proportions of a RANKIN operation which would clear up and exploit, rather than bring about, the collapse of Germany. As Russia was believed at this time to favour a Balkan campaign 'the prospects of mounting OVERLORD as planned', in the words of an American official historian, 'could not have seemed very bright' to the United States Chiefs of Staff on the eve of the first Cairo conference in November 1943.³ As it happened, Stalin soon showed at Teheran a strong preference for operations in north-west and southern France, and there is every reason to think that the purpose of the British programme at this point was to facilitate OVERLORD by maintaining an increasing threat in the south without increased commitments.⁴

The fact seems to be that the Americans failed to understand how far the British plans in 1943 had departed from, and indeed reversed, those of the Arcadia conference. In December 1941 Mr. Churchill had certainly suggested that large-scale invasion must be postponed and the 'indirect strategy', the softening-up process, with its emphasis on blockade, bombing, and subversion, substituted for it—but this

¹ Matloff and Snell, *op. cit.*, pp. 100–2.

² Sir Frederick Morgan, *Overture to Overlord* (New York, 1950), pp. 104–22.

³ G. A. Harrison, *Cross-Channel Attack (United States Army in World War II, Army Department, Washington, D.C., 1951)*, p. 122.

⁴ Harrison, *ibid.*, pp. 123–6. Mr. Ehrman (*op. cit.*, p. 111) writes, 'The Americans, in fact, feared the shadow, rather than the substance, of the British proposals. Fearing the shadow, they tended to neglect the substance. The programme of the British Chiefs of Staff was designed to maintain an increasing threat in the south until an approximate date, without an increase of force. The [U.S.] Joint Chiefs of Staff saw it as the prologue to an indefinite increase of force which might indefinitely postpone that date.' See also pp. 155–202 on the Cairo and Teheran conferences, and decisions on strategy. W. S. Churchill, *Closing the Ring* (London, 1952), pp. 291–6.

was clearly a second best. By 1943 the military position of the Allies was vastly stronger, and Mr. Churchill's outlook and that of his Chiefs of Staff had changed accordingly: the time had now come for the invasion of the Continent, and although they did not share General Marshall's view that the Mediterranean operations were irrelevant or dangerous to the main essential task of defeating the Germans they were thinking quite as enthusiastically as the Americans in terms of victory in the field.¹ The Americans seem to have regarded the British interest in southern European operations as evidence of a continued preference for the 'indirect strategy'. In so far as the 'indirect strategy' meant a desire to weaken Germany without a heavy employment of ground forces, this was certainly not the case in 1943 and 1944. The striking fact is that economic warfare, the most important element, in its various forms, in the 'indirect strategy', plays no noticeable part in the planning of these campaigns, and economic objectives are hardly mentioned in the British discussions at this period. If there had been any serious inclination to combine military operations with economic objectives the obvious sphere would have been the Balkans: it provided the Reich with essential raw materials, including grain, oil, timber, copper, and other minerals, gave access to the chrome and copper of Turkey and sanctuary from bombing for some vital war materials, and protected the vulnerable and open southern front, the Danubian plain, the veritable 'soft belly' at which invaders from the south and east had so often struck in the past. The German High Command was fully aware of the danger, and remarked that 'domination of the Balkans as an integral part of the Fortress of Europe is decisive from the point of view of winning the war for tactical, military, political, and economic reasons'. They maintained large forces there and expressed surprise after the war that the Allies had so obligingly left it alone.² Mr. Churchill it is true showed interest in a Balkan campaign, but his most specific proposals did not go beyond a limited bridgehead on the Dalmatian or Albanian Coasts (which however the British Chiefs of Staff did not favour), and operations in the Dodecanese with not more than a 'first-class division', for which the Americans did not think that the necessary landing-craft could be spared.³

Since 1939, as we have seen at many earlier points in this work, there had been two differing conceptions as to the way in which economic weapons might influence the result of the war. The first,

¹ Cf. Mr. Churchill's own comment: *The Grand Alliance* (London, 1950), pp. 581-6.

² Ehrman, *op. cit.*, p. 61, for a good discussion of this point. The great advocate of a Balkan campaign was Field Marshal Smuts, who proposed that the Western Allies should (a) devote their military effort to Italy and the Balkans, and (b) postpone cross-Channel plans while the bombing campaign was 'intensified to prepare for an eventual military knockout'. Mr. Churchill did not agree with this plan, pp. 112-13.

³ Ehrman, *op. cit.*, pp. 95, 556.

which was the one on which the Ministry of Economic Warfare normally acted, was that economic warfare was a long-drawn out process of wearing down or softening-up the enemy—a process of economic attrition which could not, in Germany's case, produce quick results (Japan was more vulnerable), and which would not influence the result of an imminent invasion from which early results were expected.¹ The second was that of the Achilles heel or 'panacea target': the vital point in the enemy's economy through which the whole body economic and politic might be dealt a single mortal blow. Earlier failures to strike effectively at these vulnerable points did not prove that they were non-existent; Germany might have found it impossible to continue the war if she had been deprived of, for example, Swedish iron ore or Rumanian oil in 1940. But they were hard to find and even harder to hit, and as far as Mr. Churchill and the British Chiefs of Staff were concerned, interest had shifted by 1943 to the all-absorbing problems of logistics and supply and invasion points for the great armies that were to batter the enemy to submission by direct attack. The feeling that it was best to get on with the war, to hit the enemy hard in the obvious places, and not waste time looking for the obscurer tender spots, was forcibly put by Sir Arthur Harris, Commander in Chief of Bomber Command from 1942 to 1945. 'Had I paid attention to the panacea-mongers', he wrote in 1947, 'who were always cropping up and hawking their wares, Bomber Command would have flitted continually from one thing to another during the whole period of my Command; the continuity of the offensive as a whole would have been irretrievably lost.'²

There was no suggestion, of course, that the British War Cabinet and Chiefs of Staff had lost interest or faith in economic warfare; if the Ministry of Economic Warfare was left to carry on the economic war as it saw fit this did not mean that contraband control, pre-emption, diplomatic pressure on neutrals, and economic intelligence were considered to have lost their usefulness. All these activities continued to play their part in the process—to which air bombing was now making the largest contribution—of weakening the enemy's power to wage war. At the economic intelligence level moreover the Ministry had been providing since the beginning of planning for the invasion of Europe a mass of economic and other information bearing on the future areas of occupation. This included the economic parts of the Basic and Zone Handbooks on various European countries, for which

¹ In the case of iron and steel for example there was a time lag of from 9 to 12 months between the manufacture of steel and the finished products; to this must be added the time taken to convey the ore from the mines to the production works. Thus the cutting off of a foreign source of raw material supply might not be reflected in diminished armament output for at least 12 months. It would normally be longer, in proportion to the size of stockpiles (see pp. 494, 658-9 below).

² Sir Arthur Harris, *Bomber Offensive* (Collins, London, 1947), p. 223.

the Ministry was wholly responsible, and information, arising from the invasion plans, concerning the resources of countries and areas that were to be the field of military operations. At the end of 1943 it became necessary to attach an officer to S.H.A.E.F. Headquarters and to prepare for further staffing when operations began.¹ Nevertheless the Ministry had been left largely to its own devices as far as the invasion plans were concerned. Apart from the reluctance of Bomber Command in 1943 to give a high priority to purely economic objectives, and the absence of any particular consideration of economic objectives in the planning of the land campaigns in Europe, there were cases (Turkey was the best example) in which the interests of the blockade were deliberately subordinated to political ends.² Indeed, the United States service departments undoubtedly had a keener interest than their British counterparts in the blockade, and a stronger faith even than the State Department and B.E.W. (or F.E.A.) in the possibility of results sufficiently rapid and substantial to influence directly the course of the war. From the beginning of 1943 the Americans were pressing the case, and developing their own plans, for daylight attack upon 'precision targets', usually with hopes of a major economic victory—as in the case of ball-bearings, and later of oil refineries. Similarly, the U.S. service departments, particularly Air and Navy, continued to demand drastic reductions of neutral exports to Germany.³

The War Cabinet accepted without demur the eight objectives put forward by Lord Selborne, and the Ministry made its plans accordingly. Its reading of the position and the prospects was set out in a memorandum explaining the eight objectives. Once again, as in each of the three earlier main stages of the war, Germany's war-time economy was to prove more resilient than the Ministry had anticipated. The memorandum remarked, 'In 1942 economic facts not only influenced but also limited German strategy and affected the result of German operations. In 1943 Germany's economic limitations should play an even greater part. Her war potential had declined during 1942, and, failing some fundamental change in the military situation, must continue to decline during 1943.' There was still no anticipation of the 'fundamental change' in the economic situation which was being brought about by Speer's reorganization and rationalization of German industry under the compulsion of dire necessity.⁴ Thus the greater opportunity of the Allies for economic pressure was matched by the greater resistance and resourcefulness of

¹ See Appendix IV, Section IV, below.

² See p. 526. The same is true of certain aspects of economic warfare policy in Switzerland, Spain, and Portugal (see pp. 441-4, 502 below).

³ See pp. 489-90.

⁴ Although the essential information was in the hands of the Ministry (see p. 397 below).

German economy, and it is of the mounting effectiveness of both attack and defence that we have to think in this last phase of the war.

Let us look first at the Allied attack. There was clearly every justification for the assumption of increased opportunity.

The occupation of Morocco and Algeria had at last cut off Germany and Italy from all supplies outside Europe and Turkey, apart from any that could be run through the blockade or smuggled through the territory of the remaining European neutrals. France had been deprived of her African supplies, and the quantity of foodstuffs which Germany was likely to get from France had also been lessened. This situation in turn gave opportunities for intensification of attacks on enemy merchant shipping; if the central Mediterranean could be rendered impassable before the enemy had transferred his shipping to the eastern part of the sea, he would lose the value of the bulk of the ships that he had acquired in French ports, a matter of great importance if he succeeded in developing sea transport in the Black Sea. The broader opportunities that appeared to be opening up included intensified attacks on Italy's economic centres from the air, and in some cases by sea; the creation of an indirect strain on German economy by compelling Germany to release to Italy raw materials and munitions, to return Italian workers, and to immobilize supplies of war materials, especially oil, for Italy's defence; and perhaps the diversion of some German fighter strength, thus advancing the date when it would be practicable to develop a sustained air attack on Germany by day. The United Nations might be able in due course to threaten the Balkans, from which the enemy drew important supplies of raw materials, especially copper and chrome; and to mount an effective attack on the oil supplies of Rumania, without which Germany could not carry on the war, except defensively within greatly reduced frontiers. More immediate was the influence which victory in North Africa could be expected to have on the policy of the neutrals, especially Spain, Portugal, and Turkey.

The Ministry was forced to recognize, however, that at this point, in January 1943, the improved prospects of the United Nations had not so far induced the governments of the European neutrals and Turkey to show much sign of a change of attitude. But in Spain and Portugal 'where we have most leeway to make up' there had already been 'a distinct improvement in their day-to-day economic dealings with us'. Since there would obviously be attempts by the neutrals in due course to climb on to the victory chariot the problem for the historian is to decide why they were so slow in adjusting themselves to the changing fortunes of the Allies. The reasons are not, after all, far to seek. The neutrals were not likely to take the risk of offending Germany until all fear of German retaliation, which could be some-

thing much less elaborate than armed invasion of their territory, had passed; and Germany still possessed a greater gift for arousing apprehensions of swift unpleasantness than the Allies.

At the beginning of 1943 she was still able and willing to act offensively; she was throwing divisions into Tunis, and later in the year, after final defeat in Africa, she was able to reinforce her armed strength in Italy, and hold it as a conquered country. Chrome from Turkey, iron ore and ball-bearings from Sweden, wolfram from the Iberian peninsula were in a double sense bargaining weapons for the neutrals; they bought some measure of security from the Germans, and stimulated counter-offers from the Allies, while Allied pressure could not go beyond the holding up of supplies. The Ministry looked forward to an improvement in the Allied position in these countries, but nothing more decisive in 1943. A further reason for neutral deliberation was that too abrupt a severing of contacts with Germany might have domestic repercussions in business and labour circles that were profiting from the war.

The overall result of the turn in the military fortunes was, then, a general, but not abrupt, improvement in the Allied chances of successful economic pressure on the neutrals. There were several stages. El Alamein, the North African landings, and Stalingrad showed that the Allied cause might ultimately triumph. Continued advances during 1943—Russian successes and the Italian invasions, with the favourable turn in the U-boat campaign in May—made this ultimate triumph a matter of reasonable certainty. The occupation of Sicily cut the Mediterranean in two and left the enemy with only three routes by which to maintain his forces in Greece: the sea routes from Trieste and from Black Sea ports through the Aegean, and the rail route to Salonica. Raids on the Rumanian oil refineries at Ploesti and the Austrian aircraft factories at Wiener Neustadt began new chapters in the bomber offensive. But there was as yet no assurance of early victory; the Swedish Government in particular, which had conducted some tight bargaining with Germany on the assumption of Allied victory by the autumn of 1944, was somewhat embarrassed by this fact. The winter of 1943-4 went by without a landing in France. It was only with the rapid and simultaneous advances of the Anglo-American forces in the west and the Russian forces in the east after the early summer of 1944 that the neutrals could be certain of Germany's collapse at any early date, and they then proceeded to sever their last business contacts with her; they did so, however, with such circumspection as scarcely to anticipate the cutting of their communications with the Germans by the Allied armies.

There were of course other ways in which the improvement in the Allied position could help to intensify economic pressure, although it is also true that the increasing desperation of her position forced

Germany to seek new means of evading the Allied controls, just as it forced her to a greater armaments effort at home. Until the beginning of 1942 she could still obtain mica, platinum, and industrial diamonds by air from South America, while occasional consignments of diamonds from the Belgian Congo were probably smuggled on the caravan routes across the West African desert. With the closing of the L. A. T. I. Air Line and the occupation of French North Africa in 1942 these German requirements could be met only by smuggling, mainly on neutral ships. At the beginning of 1943 this traffic was known to be steadily on the increase, and it could not be satisfactorily controlled by the navicert system. This presented a new problem of contraband control, which could only be solved by more effective means of deterrence, based on a considerable increase in the number of interceptions and searches. For this, however, a new contraband control base with facilities for unloading large ships was essential—Gibraltar did not possess these facilities. There was blockade running on a still grander scale between Europe and the Far East. During the greater part of 1942 none of the efforts to check the traffic had succeeded, and although heavy damage was done at the end of the year to vessels outward bound from Europe there was no reason to believe that the problem had been solved. It was known that orders continued to be exchanged for very large shipments in both directions. The expansion of Japan's steel production, the principal limitation on her armament and shipbuilding industries, and the maintenance of Germany's fat ration, 'the weakest element in her food situation', both appeared to the Ministry to depend on the continuance of these exchanges. Although the Ministry did not give this matter quite the prominence that it had assigned it at the beginning of 1942 it still believed, in January 1943, that 'the extent to which these sailings take place may well materially affect the length of the war'.

And finally the Ministry hoped for important results from the bombing of industrial targets in Germany by the Allied air forces. Its expectations are clearly shown in its statement of aims for 1943.

The air attack on Germany should be maintained at the highest possible level. It has already had substantial results in reducing the output of war materials, especially coal and iron in the Ruhr, impeding transport, diverting labour to rebuilding and the production of consumer goods and, most of all, by impairing productivity through disorganizing urban life. In addition, such heavy attacks on precise targets in occupied countries as have been possible have shown how great and sudden may be the effect of such attacks on the output of specific products. The combination of area and precision bombing on a greater scale may be expected, if scientifically directed, to show a more than proportionate increase in result, provided that the

demands of the armed forces continue to be as urgent as in the past. Any weakening of resistance, either through dissipation or through saturation, will increase the return.

This was not an anticipation of decisive results. Nor did the Ministry take sides in the debate between the British and American air commands as to the respective merits of area and precision bombing: in this passage it was supporting both, although with a preference for precision. Senior members of M.E.W. were nevertheless very sceptical as to the results of area bombing in its 1943 form. They were unconvinced when neutral business men who had recently been in Germany assured them on more than one occasion that the Germans could not for long sustain such raids as that on Hamburg. Certainly the results, from a strictly economic angle, had hitherto been disappointing. Experience in the first bomber offensives had shown that targets were harder to identify, harder to hit, and harder to immobilize permanently than had been anticipated. It had also shown that, just as the Royal Navy had even more important tasks than the interception of blockade runners, so the R.A.F. had alternative tasks which prevented a single-minded concentration on economic targets. Even when the bomber commands of Great Britain and later of the Allies were not required to concentrate on strategical targets they might be pursuing objectives in their attacks on German territory which were not directly economic. The limitations of night bombing as a means of hitting specific targets were also being learned by disappointing experience. In 1942 there had again been no decisive economic result, in spite of the thousand-bomber scale of operations, which meant that British Bomber Command had achieved great power and technical maturity. The year 1942 saw the great raids on Rostock, Lübeck, Düsseldorf, Cologne, Essen, Bremen, and elsewhere; there was vast damage to civilian property, widespread though temporary interruption of work, but disproportionately small damage to either morale or industrial output. Apart from the inherent stout-heartedness of the civilian population there was a ruthless exercise of government authority and efficient relief machinery to bring about a speedy resumption of the normal routine of work and living. And apart from what were essentially lucky hits the industrial plants in these towns were not, for the most part, heavily damaged; this was in the main because in the nature of things the raids were concentrated on the centres of towns, while the industrial targets were scattered and normally in the suburbs. Cologne was apparently the worst sufferer.

At the beginning of 1943 a solution had still to be found of the problem of concentrating this vast destructive power on precise targets while retaining the protection of darkness, or its equivalent.

The Ministry's administrative responsibility for the bomber offensive was limited to the proffering of advice on targets, which, in the case of purely economic objectives, Bomber Command was less disposed to accept in 1943 than at any other stage of the war perhaps.¹ Nevertheless, by the end of 1942 the Bomber Operations Directorate of the Air Ministry had come to rely mainly on the Enemy Branch of the Ministry for appreciations of the whole field of German industry apart from aircraft production, which remained the responsibility of Air Intelligence. Enemy Branch thus played a leading part in the three functions of economic intelligence in connexion with bombing, namely appreciations leading directly to the selection of targets, detailed intelligence for planning operations, and the assessment of war damage.² The General Branch of the Ministry was keenly interested in the discussions on economic targets, both because they involved a general assessment of Germany's vulnerability, and because in certain cases opportune bombing operations could be combined effectively with diplomatic pressure on the adjacent neutrals. These were the panacea targets on which Sir Arthur Harris looked with such impatience³—rightly perhaps in some cases. The future, however, lay increasingly with the advocates of precision targets—American by day and British, owing to improved radar and other aids, by night. The Casablanca conference authorized a combined bomber offensive in which both the British (area) and American (precision) theories would be combined, and the U.S.A.A.F. then called for a detailed analysis of targets which resulted in the 'Plan for the Combined Bomber Offensive from the United Kingdom' which was accepted by the Combined Chiefs of Staff on 18th May 1943.⁴ This was drawn up by the Americans in consultation with their British colleagues, including those of M.E.W. and the Air Ministry. It is of interest for our purpose because it provided a list of priorities which was partly shaped by considerations of access, but was mainly an expression of expert views on the vulnerable points in German

¹ Harris, *loc. cit.*, and chap. X, *passim*.

² The contribution of the Enemy Branch to the air operations is described more fully in the memorandum on 'The Development of Enemy Branch, 1941-1945', printed in Appendix IV below, especially pp. 681-2. The story of the British bomber offensive, which lies outside the scope of the present work, will be found in the forthcoming volumes of the British official history by Sir Charles Webster and Dr. Noble Frankland.

³ 'A good example . . . was a molybdenum mine at Knaben in Norway. We were told that this produced so large a percentage of all the molybdenum required by the Germans that its destruction would be a major disaster to the whole of their war effort. We destroyed the molybdenum mine—with a rather small force of Mosquitoes—and no sooner had it been repaired and was producing again, after an interval of a year or so, than the American Eighth Air Force destroyed it once more. But when we asked the economic experts to show us precisely where or when the predicted disaster was overtaking Germany, they confused the issue with a mass of verbiage. . . . Over another panacea target, ball-bearings, the target experts went completely mad.' Harris, *op. cit.*, pp. 220-1.

⁴ W. F. Craven and J. L. Cate (eds.), *The Army Air Forces in World War II* (Chicago, 1949), vol. ii, the United States official history, has a good chapter (II) on 'The CBO Plan', from which information in the remainder of this paragraph is largely drawn.

economy at this stage of the war. In the final version, target priority stood as follows:¹

- (1) *Intermediate objectives*
German fighter strength
- (2) *Primary objectives*
German submarine yards and bases
The remainder of the German aircraft industry
Ball-bearings
Oil (contingent upon attacks against Ploesti from the Mediterranean)
- (3) *Secondary objectives*
Synthetic rubber and tyres
Military motor transport vehicles

The destruction of German fighter strength was considered the preliminary to air superiority, and the destruction of the German submarine yards and bases was a matter of urgent military necessity. Among purely industrial targets, however, ball-bearings had been carefully selected, with the agreement of both the British and American experts, for first place, as combining in a high degree the essentials of indispensability, concentration, and accessibility. In the earlier discussions the first American list of priorities had given aircraft, ball-bearings, petroleum, grinding-wheels and crude abrasives, non-ferrous metals, synthetic rubber and tyres, submarines, military motor transport, and the transportation system in general. M.E.W. had been in general agreement with this list, but was inclined to give a much lower place to grinding-wheel factories and a higher place to internal combustion engine components and to propeller factories. It now seems evident that both governments were too optimistic about ball-bearings, and did not give a sufficiently high priority to electric power or nitrogen. The Germans were greatly concerned over the extreme vulnerability of their grid system and the difficulty of adding to its capacity; they were also well aware of the fact that the chemical industry was a vast and sensitive complex in which synthetic oil, synthetic rubber, nitrogen, and other elements were dangerously interdependent.²

Area bombing continued during 1943, but even such German catastrophes as the Hamburg raid were not decisive. Daylight attack by the American bombers proved expensive; too much so to allow sustained precision bombing to continue without adequate fighter support. This particular problem was solved with the appearance of the long-range escort fighter, the Mustang P-51, at the end of the year. From January 1944 onwards there was a tactical development

¹ *Ibid.*, p. 367.

² *Ibid.*, pp. 359-64; it is incorrect to say (p. 359) that imports of rubber by means of blockade running were negligible (see p. 446 below).

of great importance in the air war, for American fighters could now roam far and wide over Germany, destroying the German Air Force whenever it appeared.¹ Dramatic and important though this development was, however, it did not stand alone; it was aided both by the complementary strains on the *Luftwaffe* provided by the Russian Air Force, whose efforts to win supremacy in the air over the Russian lines were in turn aided by the Anglo-American pressure in the Mediterranean and the west, and by the R.A.F., whose massive night bombing had compelled the German Air Force to turn to the defensive and to build up a strong night fighter force which absorbed the best fighter pilots. The R.A.F. was moreover in the process of developing radar and other aids which enabled night bombing also to become an instrument of precision, and it would appear that when this was achieved the greater tonnage which the R.A.F. could carry made the night-bomber attacks even more devastating than the daylight operations.²

These developments, which made the ruin of German industry a direct, rather than an incidental, product of bombing attack, began to have really decisive results after July 1944, when Germany reached the highest level of war production since Speer's taking charge in 1942. The ball-bearing industry, heavily attacked by both British and United States bombers in February 1944, did not prove to be Germany's Achilles heel, for a successful policy of dispersal was carried out just in time.³ But the oil attack, which began when the Americans turned the 'marginal' capacity of the Eighth Air Force against the German oil plants in May 1944, and which became a combined attack when the R.A.F. also began to devote a 'marginal' effort to it in the following months, was almost the crippling blow: German production of aviation fuel, for example, fell from 175,000 tons in April to 29,000 tons in July. There was, however, after this some recovery, and the really decisive effects of the Allied bombing came during the last three months of 1944, no doubt aided by the resolution of the last arguments between the British and United States air authorities at the end of October.⁴ In September a systematic offensive against German transport began and continued until, by the end of the year, the whole German war economy began to founder on the coal famine and on all the other consequences of the breakdown of the rail transport essential for the movement both

¹ *Ibid.*, pp. 705, 717; General Henry H. Arnold, *Global Mission* (New York, 1949), pp. 376-77; W. S. Churchill, *Closing the Ring* (London, 1952), pp. 461-2.

² Speer considered at the beginning of 1945 that night bombing had become more destructive and more accurate than daylight raids, 'since heavier bombs are used and an extraordinary accuracy in attacking the target is reported'. (Speer to Hitler, 19th January 1945, Flensburg Documents).

³ See pp. 415-7 below.

⁴ John Ehrman, *Grand Strategy, VI* (H.M.S.O., 1957), pp. 4-14.

of food supplies and of armaments. At long last, too, plans for blocking the Danube, so much canvassed in the first winter of the war, were realized; the R.A.F. carried out a successful blockade by mining between April and September 1944. The Danube had become by 1944 by far the most important single transport unit in eastern Europe and carried almost exclusively Rumanian oil products, and during the period of the attack very few tankers succeeded in reaching the upper river.

But effective though the air attack was, its really devastating blows in Germany came only in the second half of 1944, in combination with all the other factors which combined to ruin her war economy—losses of *matériel* and men in battle, of advanced air bases and radar-warning stations, of routes of supply from neutral or occupied territory. In the Ministry of Economic Warfare's assessment of prospects which we examined in the last section the German capacity to fight back on the home and industrial fronts had been underrated, not through any doubt as to the fanaticism of the leaders but mainly because of the continuing effects of German deeds and propaganda in exaggerating their earlier thoroughness. There was still perhaps some belief that the German populations had been pushed to the limit of their endurance. The circumstances in which, during the first two years of the war, the German Government had geared the industrial machine to the restricted demands of the earlier fighting, have already been discussed; they show that the first phase of Speer's effort which followed in 1942 was still only a larger-scale improvisation to beat Russia in one great final campaign in the summer and autumn of that year.¹ It was not until after the failure at Stalingrad that the German Government finally accepted the grim evidence that it must fight a war of attrition in the field of mass production, and that the days of smash-and-grab campaigning were over.

The Ministry of Economic Warfare had a good deal of information about Speer's activities, some aspects of which were indeed given wide publicity in the German press. This fact in itself aroused some legitimate scepticism, for it was to be expected that German propaganda would seek to strengthen morale by tall stories about ever-expanding industrial power. Speer's success in greatly increasing armaments production is shown by the following monthly index figures prepared by the Statistical Department of the *Planungsamt* of the Ministry of Armaments and War Production.²

¹ R. Wagenführ, *Die deutsche Industrie im Kriege, 1939-1945*, pp. 24-39; U.S.S.B.S., *The Effects of Strategic Bombing on the German War Economy*, p. 24.

² Wagenführ, *op. cit.*, p. 66.

German Armaments Production

(Jan.-Feb. 1942 = 100)

	1942	1943	1944
January	103	182	241
February	97	209	231
March	129	216	270
April	133	215	274
May	135	232	285
June	144	220	297
July	153	229	322 (maximum)
August	153	224	
September	155	234	
October	154	242	
November	165	231	
December	181	222	
Average	142	222	

Broadly therefore German armaments production by the summer of 1944 had been more than trebled since Speer came into office; there was a five-fold increase as compared with the beginning of 1941. Speer's own list of the achievements of his Ministry in this period can be summarized under four heads.

1. The output of finished armament products was brought to its peak and trebled by a flexible system of priorities, with considerable increases in the production of tanks, weapons, and fighter aircraft.
2. The component parts industry was expanded to give better service to the plants turning out finished products.
3. A planned expansion of the basic materials industries had made the Reich independent of imports for a long period.
4. The essential demand of the armed forces, public authorities, armaments industry, and civilian population for consumer goods had been met.

To this could be added the fact that stocks of the more important weapons and equipment could be shown to be greater at the end of the period than at the beginning, although relative to the volume of goods produced, and therefore to consumption in battle, they were declining ominously in these categories.¹

These results, dramatic and indeed remarkable as they undoubtedly were, had been achieved mainly in three ways: by the rationalization and reorganization of German industry, by certain economies in consumer goods production, and by giving priority to certain ranges of weapons and equipment. Of the first of these developments the Ministry was uneasily aware before the end of 1942; it remarked in December 1942 that it appeared to have been applied with some success in certain branches of war production

¹ Wagenführ, *ibid.*, pp. 79-81. There was of course an element of self-justification in these claims, directed partly against his rivals in the Reich Ministry of Economics. Point 3, for example, needs considerable qualification (see p. 401 below).

where further standardization of type was possible, and that 'whatever the difficulties, Germany's armaments output is still on an exceedingly formidable scale'. Comments of this sort are evidence that the Ministry had already recognized that something had gone wrong with its prophecies of early disaster for German economy. Six months later its assessment was still tentative: it accepted the facts but was puzzled to explain them. In a speech to the N.S.D.A.P. Rally on 5th June 1943, Speer claimed very large percentage increases in the production of certain types of shells and artillery, and at the same time claimed that there had also been increases in the output of tanks, aircraft, and locomotives. The Ministry noted that these claims were based on a comparison of the output of May 1943 with the average monthly output of 1941, admittedly a year of low output; moreover Speer had included a number of products, such as armour-piercing shells of over 5-cm. calibre, which were probably little beyond the prototype stage in 1941. The Ministry recognized, however, that there was good evidence, which it did not wish to question, that output had been maintained or slightly increased in other fields, such as railway wagons, some types of machine tools, and submarines, which Speer had not mentioned. It was nevertheless still convinced that 'an overall increase in all fields of war production is compatible with neither the admittedly difficult labour position nor the perennial transport and raw material supply problems' and that therefore 'although the production of finished munitions may have been maintained or even increased, there has undoubtedly been a marked fall in the output of less essential products'. In short, the Ministry denied any net expansion: increases in one sector must have been balanced by losses elsewhere.

Speer's increases in output were undoubtedly accompanied by serious reductions of output in certain other directions, such as bombers, warships, various classes of consumer goods, and the like. It is also the case, however, that there were anomalies and absurdities in the organization of German industry which allowed—fairly easily perhaps under the compulsion of urgent need—some rapid net advances in efficiency and production. Speer's great achievement in industrial leadership was the establishing of more businesslike relations between the various sectors of the armaments industry. When he took over control of the Ministry of Armaments and Munitions in February 1942 the existing practice was for the High Command through its own officers to arrange for production as best it could by contact and negotiation with the firms concerned; the armaments organization of the High Command was now taken over by Speer's ministry, and greatly improved industrial relations were rapidly established. The basic plan was to bring factories or parts of factories engaged in the same production work into contact with each other

under the direction of some recognized expert. These groups of factories were known as either 'committees' or 'rings', the former being normally concerned with finished products, the latter with the supply of materials. The task of these new organizations was to improve production methods, exchange patents and technical information, standardize types, effect savings in labour hours and material, eliminate bottlenecks and in general to secure the fullest use of the capacity available. The organization in each case tended to grow and to subdivide, but Speer aimed throughout at informality, decentralization, and hard work by the leaders, who were to be helped by the best technical experts available. On these lines much was achieved. While it was still open to the armed forces to lay down what their requirements were the Ministry of Armaments and Munitions had the task of allocating orders to factories and deciding what were the most expeditious and efficient methods of production.¹ That this was still a matter of temporary improvization is shown by the fact that the older grouping of factories into economic groups according to trades continued, and owing to the freezing of these groups at the beginning of the war, factories which had changed their purpose had to stay where they were—a chocolate firm which had turned over to ammunition production remained in the confectionery group, and so on. This appears to have hampered Speer's work to some extent by confusing the basis of statistical calculations, and the tendency of the committees and rings to develop and sub-divide had a similar effect. In many cases also the lines of demarcation between one committee and another, and between committees and rings, were not clearly defined; the singleness of purpose with which a leader of one committee pursued the goal of increased output for his own programme might mean that others suffered, with perhaps some detriment to the general plan. But when all this is said and done there is no doubt that the rationalization of the armaments industry was a valuable contribution to the continued economic survival of the Reich.²

In addition to the planning of production the committees and rings were concerned with labour supply and the availability of fuel and power. Broadly speaking the armament industry met its needs for trained workers in various ways during 1943, partly by draining off qualified labour from the consumer industries, partly by the employment of foreign workers; the problem, as the Allied experts knew very well, was essentially one of skill rather than numbers, and it was found possible by strict labour regulations to give Speer what he needed during this period. But the situation, as the demands of

¹ Speer was specifically authorized to refuse requisitions which reached him from the General Staff. Speer (Hamburg) Documents, 22nd March 1942, para. 2.

² *Wagenführ*, *op. cit.*, pp. 39-45.

the Wehrmacht for men and supplies grew steadily during 1942 and 1943, was one of increasing difficulty. The Wehrmacht needed ever more recruits both to replace losses and to increase its total strength. The total strength, which stood at 7,200,000 in May 1941, rose to 8,635,000 in May 1942, and to 9,555,000 in May 1943; a year later the figure had fallen to 9,100,000. The total losses up to May 1942 were 800,000; they had increased to 1,680,000 by May 1943 and to 3,285,000 by May 1944. Thus the total mobilization for the armed forces had increased from 7,385,000 in May 1941 to 12,385,000 in May 1944. In June 1942 the calling-up age was reduced from 18 to 17½, and in October 1943 extended to cover the age groups from 49 to 60. All this meant that heavy inroads were being made on the skilled labour resources of the Reich. Sauckel's main contribution to this problem was the recruitment of additional foreign workers; 2,100,000 were brought in between May 1942 and May 1943, but it was only possible to recruit 900,000 during the next twelve months (May 1943 to May 1944), and the direct employment of foreign labour, which Speer disliked, was seen to have failed. The more efficient mobilization of the resources of the Reich itself was attempted in the Sauckel Decree on the Mobilization of Labour of 27th January 1943, followed by the Funk Orders for the closing down of enterprises in the distributive trades and in the crafts in order to free labour for work in the armaments industry, and to save accommodation, machinery, and raw materials. We now know that the number of people employed in the consumer goods industry hardly declined at all during 1942 and 1943, although there was a marked decline in consumer goods production; this was due partly to the replacement of trained workers by foreigners (including prisoners of war) and untrained women, partly to curtailment of raw material quotas. German industrialists seem to have shown considerable ingenuity in keeping up the supply of unnecessary goods and with it their own profits; the fierce opposition of some of the Nazi regional authorities to any curtailment of the consumer goods industry continued into 1943.¹

The Ministry of Economic Warfare was seeking evidence throughout the year as to the effect of the Sauckel Decree of January 1943, but no authoritative German figures were published as to its results. It was, however, announced in August that approximately 3 million women and half a million men had registered under the decree, and that some 2,900,000 had been interviewed to date. Balancing this intake of new workers against an intake into the armed forces which did not exceed the normal autumn quota, Germany might expect to close the year 1943 with a labour force numerically maintained or even slightly above the December 1942 level. But the Ministry's

¹ Wagenführ, p. 49.

experts were not convinced. There were clear signs of strain, and they were quick to note the significance of statements by Sauckel and Speer which implied labour shortages. They were also alive to German difficulties in the employment of women. Figures published for Berlin and the Reich showed that approximately half the women recruited in 1943 were placed on part-time work; there was in addition a constant tendency for women originally recruited for full-time work to gravitate to part-time work, so much so that Sauckel had attempted to prevent this practice by a decree in September. Allowance had also to be made for the inclusion in the original figures of married women with children, which would tend to reduce the proportion of full-timers still further. The Ministry's conclusion was that not more than 30 to 40 per cent. of those recruited in 1943 would be engaged on full-time work. But there was also evidence of great and growing wastage of female labour; for example, a report by a German industrialist which came into the Ministry's hands put wastage among women recruited since the beginning of the year at 50 per cent., and absenteeism among the remainder at 30 per cent. Altogether therefore it seemed possible that the total effect of the mobilization campaign might not have done more than keep the unemployment figures for women ticking over.

Our broad conclusion must be that the Ministry of Economic Warfare had a good general understanding of the importance of Speer's work in stimulating armament production, although it was prone to underestimate the extent of both his difficulties and his achievements. Speer himself found that his responsibilities were steadily increasing, and in September 1943 Hitler decreed that for the duration of the war he should be head of a reconstituted ministry, to be named the Ministry of Armaments and War Production. The scope of the Ministry of Armaments and Munitions had been confined to the production of war materials; the new ministry was to be responsible for all industrial production. Funk, the Minister of Economics, was thus relieved of one of his most important tasks. The change, though logical, could not be carried out completely or without friction; rivalry between the two ministries, and the impossibility of rapidly adapting their structure to their newly defined functions, meant that dual control had to be tried. Funk had built up a very complicated machinery for the control of all economic activity (outside agriculture and transport), the actual powers being vested partly in his ministry, partly in the semi-public Organization of Industry and Trade. In both spheres a comprehensive system of regional and functional sub-organizations had been built up, but since none of these was responsible only for production, it was considered impossible to transfer them en bloc from Funk's to Speer's jurisdiction. The result was a decree placing all authorities and semi-public

bodies, in so far as they were concerned with tasks involving the control of production, under the orders of both Funk and Speer. In all matters concerning production they were to take their orders from Speer, but in all other matters would continue to report to the Minister of Economics. The M.E.W.'s six-monthly survey in December 1943 commented hopefully on the serious friction to which this emergency solution must surely give rise.

Yet in the field of production which was of most immediate interest to the Ministry of Economic Warfare—that of basic materials—Speer looked on the situation with confidence, and, as we have seen, claimed that by the summer of 1944 the industries producing these materials had reached a capacity which would have permitted the war to continue for a long period independent of imports. He believed that this was true of all basic materials and included also buna rubber, textiles, and fuel. On the face of it this means the defeat of the blockade. In fact, things were becoming increasingly difficult for Germany on the raw material sector after the end of 1943, and the situation was certainly not so favourable as Speer claimed if one compares output (which was being maintained) with rising consumption and falling stocks. To meet increased demand, programmes providing for expanded production for 1943-4 had been drawn up, but the careful calculations of the *Planungsamt* showed that by June 1944 the planned figures were in general more than 15 per cent. above those actually achieved, and that there were even more serious production deficits in some sectors. The most ominous fact perhaps was the slow but unmistakable exhaustion of the small reserve of raw materials which had made production increases, particularly in armaments, possible, even when there had been no proportionate increases in the production of raw materials. The extent to which these stocks could be husbanded for the more vital needs depended on the extent to which civilian consumption could be restricted and saving of material was possible by more economical use in production. The various expedients for meeting the demands of the armaments industry were, however, reaching their limit in June 1944.¹ Even without the blows of the Allied air forces, German raw material production would have been insufficient to meet the full demands of the armament industry after the summer of 1944, and with the approaching exhaustion of stocks a substantial limitation of armaments output would have been inevitable.

The story of Japanese war production is broadly similar to that

¹ The index figure for raw material production in Germany, taking 1942 as 100, reached a temporary maximum of 112 in March 1943, after which the volume sank slowly to 105 in June 1944.

of Germany. Although Japanese economy was already on a war footing in December 1941, full industrial mobilization for war had not taken place, and for another year the Japanese authorities were content to view the military situation optimistically without substantially increasing the armament effort. Japan like Germany had contemplated a short phase of decisive fighting in which the substance of victory would be secured by the swift exploitation of initial advantages. She never contemplated a fight to a finish with the United States; this would have necessitated the seeking out and destruction of the main United States fleets, and even a military victory by invasion of the North American mainland—a grandiose task quite beyond her powers. She believed in the months following the Pearl Harbour attack that she had seized an impregnable position in the Pacific which she could hold until the Allies, and particularly the United States, realized the hopelessness of the situation and came to terms.¹ This psychological victory would be assured when Germany won her expected triumph in Russia, and England had been speedily disposed of by surrender or invasion. Her permanent gains, ensuring economic self-sufficiency, would be the acquisition of Borneo, Sumatra, Java, Malaya, and Burma, while the occupation of New Guinea and the Philippines would be essential to protect her flanks during the war and perhaps provide bargaining counters in peace negotiations with the United States.² It appears that the American victory at Midway in June 1942 was regarded as a lucky success due to the Japanese lack of radar, and did not cause any particular alarm in Tokyo; not until the American victory at Guadalcanal (13th–15th November 1942) and the series of naval and land battles which followed during the next six months, did the Japanese wake up to the fact that the war was not yet won. With the Allies moving to the offensive in Europe, the Mediterranean, and also South-Eastern Asia more speedily, more resolutely, and more efficiently than had been thought possible the Japanese Government, in growing alarm, embarked on a vast effort which paralleled Speer's achievement in Germany and raised war production to record heights.³

¹ 'Japan's strength lay in her spirit; America's in her lack of it.' Robert J. C. Butow, *Japan's Decision to Surrender* (Stanford, U.S., 1954), p. 9: chap. 1 of this work generally gives a good sketch of Japanese policy until the fall of Tôjô.

² J. F. C. Fuller, *The Second World War, 1939–1943* (London, 1948), pp. 127–32. F. C. Jones, in *The Far East, 1942–1946* (*Survey of International Affairs, 1939–1945*, Royal Institute of International Affairs, 1955), Part I (i)(c) and (ii)(a)(b) discusses Japanese aims in their broader political setting.

³ U.S.S.B.S., *The Effects of Strategic Bombing on Japan's War Economy* although repetitious and apparently hurriedly prepared, remains the best study of Japan's wartime economy from the blockade angle. It includes a useful appendix, A, on U.S. Economic Intelligence sources and methods in relation to Japan, and elaborate statistical tables of Japanese war-time production, also with useful technical comments (Appendix C). M.E.W.'s considerable contribution to these American studies is described in Appendix IV to the present work (see pp. 683–4, 686, 688 below).

The need for this underlines the basic and tragic paradoxes of Japan's position. At home, the rivalries and ambitions of the Army and Navy leaders and of the *Zaibatsu* business clans, which had done so much to push Japan into her existing imperial East-Asian pre-eminence, delayed and in some directions seriously obstructed General Hideki Tōjō's plans for a centrally-planned economic mobilization. Abroad, the extended conquests carried their own weaknesses: although they supplied the raw materials essential for the great war effort to which she had committed herself they made her correspondingly dependent on long shipping routes which were dreadfully vulnerable to blockade.

Some hints of the internal struggle reached the Allied economic warfare agencies during 1943. It was well known before the war that in Japan the premier was no more than *primus inter pares* and that all the ministers, and particularly those of the Army and Navy, had a large measure of jealously-guarded independence both in policy making and in jurisdiction, which derived from the theory of their personal responsibility to the Emperor. Furthermore, Japanese industry was dominated by the small group of giant businesses known as the *Zaibatsu*, of which the leading members were Mitsui, Mitsubishi, Sumitomo, and Yasuda, and their influence was also powerful enough to prevent or seriously obstruct the interference of a dominant political leader. In anticipation of the big war which was seen to be approaching in 1940-1, industrial control associations had been set up as the administrative organs of industrial mobilization; but they were dominated by the *Zaibatsu* executives and they were indeed little more than the familiar *Zaibatsu* cartels imperfectly disguised. General Tōjō, who was both War Minister and Minister President, and who had behind him the prestige of the 1942 victories, was in a stronger position than most of his immediate predecessors to interfere with these powerful and monopolistic bodies; even he, however, had been able to make little headway against them during 1942. The control associations were linked to various ministries, but on the one hand each association tended to follow its immediate business heads rather than the ministry concerned, and on the other the premier found it difficult to interfere within the carefully defined jurisdictional sphere of the ministers. The result was that each association tended to fight for the continuance of its own programme and for the requisite manpower, raw materials, and capital without much attention to, or knowledge of, the broader pattern of national policy. This cut-throat competition, particularly for scarce commodities, might perhaps have caused no great concern if Japan had really been coasting to an early and easy victory. But by November 1942 Tōjō was concerned not merely by the serious implications of the Guadalcanal operations but also by the loss of

over half a million tons of Japanese merchant shipping since December 1941. The imperative need, if the southern advance was to be continued or even maintained within its existing limits, was for a heavy and sustained increase in the output of ships and planes; during 1942, however, the Japanese ordnance industries had still been producing mainly for the continental war in China.¹ In particular, the priority estimates for 1942 had made no provision for the expansion of merchant shipping production.

On 27th November 1942 a preliminary announcement was made of the setting up of a ministerial coordinating committee 'for the increase and strengthening of emergency production', together with a number of local deliberative committees: this was the first step towards a drastic reorganization of cabinet functions which was not, however, completed, even on paper, for another year. The struggle raged over the determination of the *Zaibatsu* leaders not to be subjected to the dictatorial powers of supervision over the general economy and over the other ministries which Tōjō had at first demanded for himself, and therefore for the Ministry of War. The significant point of the announcement on 17th March 1943 of the Imperial approval of emergency powers appears to be that Tōjō had had to accept the cooperation of an Advisory Council of seven leading *Zaibatsu* representatives who were already the leaders of the more important control associations. The detailed plans were not finally worked out until the following November, with the formal setting up of three new ministries and the liquidation of four older ones; but the essential innovation was the creation of a Ministry of Munitions, with administrative control over the whole of industry, and with a 'Total Mobilization Bureau' with much wider powers of general direction than the old Planning Board of the Cabinet. But the *Zaibatsu* retained its influence in the staffing and directions of the Ministry of Munitions, which seems also to have failed to secure complete authority over the Army and Navy Ministries.²

In spite of this intense domestic struggle and its inevitable slowing down of the processes of conversion, Japanese industry did put out an immense effort which raised production to record heights, with, in the end, the right priorities. Top priority was given to military and naval aircraft: between December 1941 and August 1945 the aircraft industry produced a total of 65,971 planes and 103,971 aircraft engines. Air power was supremely important in the Pacific fighting, for the vast numbers of otherwise insignificant islands pro-

¹ 'On the 1941 priorities list, the A ratings were given, in order, to tanks and tractors, medium and small guns, large guns, car and craft radio, and large radios. For 1942, the A ratings were given to three items, in the following order: Tanks and tractors, large radios and radio detectors.' *Ibid.*, p. 21.

² T. A. Bisson, *Japan's War Economy* (Macmillan, New York, 1945), pp. 113-14; the material is derived partly from official (B.E.W.) sources.

vided an unlimited range of 'anchored aircraft carriers', with a sea-gap of not more than 500 miles between any two: Japan's successful amphibious operations in 1942 were nearly all conducted with land-based aircraft. Yet the 1942 production plans had provided for only a moderate expansion of aircraft production, and although the Government in the end hearkened to the cry of the Army and Navy for more and better models, shortages of heavy machinery and structural steel needed for the expansion of plants prevented progress for some time. By the spring of 1943 much new construction was in progress. But the danger of bottlenecks and shortages of machine tools, manpower, and materials remained until the establishment of the Ministry of Munitions provided a more efficient central direction. Aircraft production reached its highest level in the spring and summer of 1944, aircraft engine production in the spring, although the Government demand for an increase by June 1944 of 2·16 times the September 1943 output of planes and engines was not achieved. After this, output rapidly declined: aircraft production from 7,391 planes in the second quarter of 1944 to 4,940 in the last; engine production from 12,468 in the first quarter to 5,469 in the last. The need for merchant shipbuilding, which had been so surprisingly neglected in the 1942 production programme, was also recognized in the painful reappraisal which followed the Guadalcanal campaign, and there was a similar story to that of aircraft production: expansion, although considerable in 1943, was held back partly by administrative bottlenecks, partly by limitations of shipyard capacity, and the peak achievement, helped by the building of new shipyards, came only in the first half of 1944. In the last phase merchant shipping had priority even over naval shipbuilding; in 1944 the latter was allocated only one-sixth of the steel allocated to the building of merchant ships. In the 1944 fiscal year 28 per cent. of total steel was assigned to shipbuilding. The story was similar in the field of armament and munitions production—a general increase in output starting in 1943, reaching its peak in the summer or autumn of 1944, followed by an accelerating decline which had become disastrous by the spring of 1945.¹

The cause of this decline was obvious enough—it was due primarily to the exhaustion of stocks of raw materials as a result of the blockade and of the poorness of Japan's domestic sources. Her dependence on imports from overseas for the essential basic materials of modern industry and even for a vital margin of food had been the basis of Anglo-American programmes before the war in the economic-warfare, and even to a large extent in the diplomatic, sphere. The rather pessimistic outlook of the Ministry of Economic Warfare at the end of 1942 had been due to the fact that no sign of a break had

¹ U.S.S.B.S., *op. cit.*, pp. 19-31.

yet appeared.¹ As in the case of Germany, the Ministry assumed a more intensive effort with corresponding strains on the enemy's part in the first year of war than in fact was taking place. Japan, like Germany, made her maximum industrial effort only when it was too late to save her—when, that is, her enemy, psychologically undisturbed by early lightning defeats, had settled down to fight a grim war of attrition to the finish. It was perhaps to the Allies' advantage that Japan's maximum effort was not made until the winter of 1943-4, when the Allied (and particularly United States) production was vastly greater than it had been in 1942. Japanese delay in expanding her war economy meant that she had in some measure conserved her stockpiles for the final burst of production, but this when it came brought about the final collapse correspondingly more quickly, for the flow of imports had by then largely ceased.

The sinkings of Japanese merchant shipping by Allied action are set out in the following table.²

Japanese merchant shipping sinkings 1941-5
Gross registered tonnage

	Dec. 1941- Oct. 1942	Nov. 1942- Oct. 1943	Nov. 1943- Aug. 1944	Sept. 1944- Aug. 1945	Total	Percentage of total
By submarine	480,000	1,188,000	2,150,000	1,043,000	4,861,000	60.1
By aircraft	123,000	374,000	846,000	1,379,000	2,722,000	33.6
By mines	68,000	41,000	51,000	353,000	513,000	6.3
TOTAL	671,000	1,603,000	3,047,000	2,775,000	8,096,000	100.0

Until the autumn of 1944 the greater part—over 70 per cent.—of this destruction was accomplished by American submarines. After this the Allied advance, including the occupation of the Philippines and later of Okinawa, enabled both carrier and land-based aircraft to operate in strength against the enemy's main shipping routes, nearer and nearer to his coasts and harbours. Aerial mining was also of great importance during the last twelve months.³

The effect of these attacks on the supply of the basic commodities

¹ See above, p. 20.

² Based on figures in U.S.S.B.S., *op. cit.*, p. 43.

³ These operations have been fully documented in various official United States sources. U.S.S.B.S., *op. cit.*, gives the essential figures in Appendix Tables C-103 to C-123 (pp. 183-96). *The War Reports of Marshall-Arnold-King* (Lippincott, Philadelphia, 1947), show differences in emphasis between General Arnold's Third Report (pp. 437-44) and Admiral King's Third Report (pp. 689-91), both of which give accounts of the attacks on shipping, but the broad conclusions are the same in each. See also chapter XVI, 'The Campaign to Destroy Japanese Shipping', pp. 378-82 in *The Campaigns of the Pacific War* (U.S.S.B.S. (Pacific), Naval Analysis Division, 1946).

was beginning to be felt by the spring of 1943. In the case of steel production the Allied and American restrictions on scrap and pig-iron imports during 1941 had increased the dependence on iron-ore imports, which had reached their war-time peak late in the last quarter of 1942 (1,356,000 tons) and fell to 260,000 tons in the first quarter of 1945. Some 90 per cent. of iron ore imports came from China, where in 1943, to the attacks on ore ships at sea, were added bombing and mining of shipping on the Yangtze by the U.S. Fourteenth Air Force. This vital route for the movement of iron ore to the coast had been virtually closed by the end of the year. By the autumn of 1944 pig-iron, ingot, and rolled steel imports had also fallen by 30 per cent. Imports of coking coal, equally essential to the steel industry, declined at about the same rate as iron-ore imports. Here, too, China was the main source. Imports were cut by over 50 per cent. from Karafuto and by about 50 per cent. from Korea, and although there was still enough to allow the smelting of the limited remaining stocks of iron ore, quality suffered through the cutting off of the high grade Chinese coking coal. There was a somewhat different story of disaster in the case of oil. When the December 1941 stocks of some 5,690,000 tons were exhausted, fresh supplies would have to be brought by tanker from Borneo, for synthetic production was negligible; and tankers could be expected to have a high priority in Allied attack. However, sinkings were few in 1942, and by no means lethal in 1943, and in the meantime the tanker fleet was being substantially expanded by conversion or new building. The total Japanese tanker tonnage afloat at the end of December 1941 was 587,245; at the end of December 1943 it had risen to 873,070. Up to this point a more serious problem than Allied sinkings was that the demands of the services continued to outstrip supply. In 1944, in spite of the sinking of 825,000 tons, the tanker fleet had not fallen by the end of the year much below the total tonnage of December 1943. There was, however, a substantial drop in imports resulting from the harrying of the tankers by submarine and air attack, and imports ceased entirely after February 1945—not because the tankers had all been sunk, but because the routes from the south had finally been closed. There was much the same story in the case of chemicals and the light metals. Synthetic nitrogen production was declining from April 1944 onwards, but the effect of this seems to have been mainly felt in agriculture, where nitrogenous fertilizer was the main victim. Bauxite imports were declining throughout 1944, and had been completely stopped by December, with a consequent crisis in aluminium production. Magnesium imports had practically stopped by April 1945.

The general picture then is of an industrial power in a war of economic attrition, exhausted on the one hand by the vastly greater

production effort of her opponents (the more striking because the main Allied effort was in Europe), and enfeebled on the other by a naval and air blockade which progressively reduced the imported mineral supplies which were the lifeblood of her war industries. Japan surrendered without invasion. Germany in spite of her deficiencies had far greater indigenous sources of supply, direct land communication with neighbouring occupied and neutral territory, better food supplies, a far more numerous and efficient labour force, and a more masterful and knowledgeable government. There were arguments in favour of the bombing of Japanese towns as a means of breaking the will of the Japanese Government and people to stage a hopeless fight to a finish, necessitating Allied invasion of the home islands; little of this air attack was needed to secure the strictly economic objectives. Thus by April 1945 even the naval stocks of oil were so low that only one of the surviving battleships, the *Yamato*, could sortie against the American invaders of Okinawa; stocks of crude oil were virtually exhausted and the oil refineries almost entirely closed down before systematic bombing of the refineries started in June 1945. The Japanese war-making economy had been brought to a standstill mainly by the disruption of the sea routes of supply; the débâcle could probably have been completed at an earlier date by no more than the destruction from the air of certain vital links of internal communication which would have immobilized the remainder of the rail system through lack of coal.¹

The main field of Allied economic-warfare policy was, however, in Europe, where a very much more complex set of problems had to be faced, and where the conflicting evidence as to Germany's economic strength was reflected in some marked changes in blockade policy during the year 1943. There were, broadly speaking, two programmes. During the greater part of 1943 the Ministry of Economic Warfare and its American colleagues were doing their best to forward the attack on all the eight economic fronts mentioned at the beginning of this chapter, and indeed all these aims were being industriously pursued (where circumstances allowed) until the end of the fighting in 1945. But towards the end of the year the Ministry's main hopes began to concentrate on a comprehensive attack on the German steel industry, which was believed to be vitally dependent on supplies of ferro-alloys from neutral sources. Accompanying this

¹ U.S.S.B.S. comments: 'A successful attack on the Hakkodate rail ferry, the Kanmon tunnels and nineteen bridges and vulnerable sections of line . . . would have virtually eliminated further coal movements, would have immobilized the remainder of the rail system through lack of coal, and would have completed the strangulation of Japan's economy. This strangulation would have more effectively and efficiently destroyed the economic structure of the country than individually destroying Japan's cities and factories.' Cf. the comments of J. F. C. Fuller, *op. cit.*, pp. 384-90.

attack there was the campaign against German ball-bearing supplies, although this complex operation proved in the end to be merely another of the 'panacea targets' which had been pursued so hopefully and abortively throughout the war.

Thus as far as the European neutrals were concerned the Allies were engaged during 1943 in a general campaign of pressure to secure any attainable reductions of neutral aid to the enemy; there were some successes, and not a few disappointments. On the whole the United States economic-warfare agencies were more sanguine than the British, who believed that the potency of the Allied weapons—such as the threat to withhold supplies—continued to be overrated in some circles in Washington. On occasion the Americans in negotiation were quite fiercely indignant at neutral conduct, and there was now an increasing tendency to make the limitation of exports to Germany a test of the ideological fitness of the small neutrals for favours in the post-war world. We have already seen that in 1941 and 1942 the underlying assumption had been that national security justified a unilateral repudiation of the traditional rights of aliens to have access to the commercial and financial facilities of the United States, and, where she controlled it, to the international financial and commercial system and to the freedom of the seas.¹ During 1943 the approach of Allied victory progressively reduced the validity of neutral arguments based on fear of German interference, and rendered increasingly implausible, in the eyes of the service departments and other American advocates of toughness, the case for tolerating any neutral exports to the enemy at all. Thus as time went on ideological and humanitarian arguments began to replace the claims of national security as a goad to force the British and sometimes the State Department into more drastic action. It was, however, still a substantial reduction rather than a complete severance of neutral supplies to the Axis that was being demanded by the United Nations during 1943, and the blockade authorities in both London and Washington were more or less in agreement as to how far they could go in trying to enforce concessions: at many points M.E.W. preferred the bolder American to the more cautious Foreign Office approach.

We shall see in subsequent chapters that the most noteworthy successes were in Sweden and Switzerland. In Sweden, after the British at the beginning of 1943 had shown themselves for a time to be ready for more forceful measures than the Americans, the two powers secured in the summer a new war-trade agreement which provided for substantial reductions of iron ore and other exports to Germany. Their chief means of pressure was the threat to close the Gothenburg traffic, a weapon whose effectiveness they probably overrated, for it

¹ See p. 61.

accounted for only 15 per cent. of Sweden's imports. The Swedish Government's concessions were really due to political calculations—to the willingness to make substantial concessions to the Allies in the belief that Germany would have lost the war by the autumn of 1944 and that Swedish economy would just be able to keep going until then on reduced German supplies. It was a double shock to the Swedes to find in the winter of 1943-4 that the war was likely to last considerably longer and that the Allies were pressing for much greater concessions: the Swedes claimed that they had been given to understand that the 1943 arrangements would continue for the remainder of the war.

In Switzerland the blacklisting of a famous business firm secured later in the year substantial reductions in exports to Germany of arms and ammunition, machines and engines, aeroplane parts, precision instruments, and the like. The Ministry took the initiative in these Swiss negotiations with the approval of the Board of Economic Warfare, and in the face of some anxiety on the part of both the Foreign Office and the State Department at the prospect of a political breach. Both the British and United States ministers in Berne deprecated the more drastic of the Ministry's proposals, in much the same way as had the British and United States ambassadors in Madrid deprecated the persistent attempts of the State Department to keep Spain short of oil. The British Government's view, which M.E.W. accepted with some reservations, was still that economic assistance was a better card to play in Spain and Turkey than economic coercion. The position in Turkey was particularly disappointing. In Portugal too there was no real progress in 1943; wolfram exports to Germany continued, and in view of the Azores agreement neither of the Allies felt it possible to force a genuine showdown on economic issues.

Both the Allied Governments were satisfied by the end of 1943 that they could demand much more of the neutrals in the immediate future, and the Ministry produced a carefully-worked out plan, which the War Cabinet accepted in principle, to make the German steel industry, and particularly ferro-alloy supplies, the first priority in attack. Indeed, during the first half of 1944 the Ministry attached more importance to the crippling effect on German industry of losses of the alloying materials than to air attack on German industrial targets. Germany's dependence on imported supplies of chrome, molybdenum, nickel, tungsten, and above all manganese was obvious and was emphasized at the end of 1943 when her hold on the manganese ore field of Nikopol was finally broken. In a memorandum presented to the War Cabinet on 24th December 1943 Lord Selborne outlined the Ministry's proposals for a comprehensive attack on all Germany's remaining sources of foreign supply in these classes

of raw materials. He said, quite correctly, that Germany had been drawing heavily upon her reserves of machines and weapons, that she was more dependent than ever before upon fresh supplies of raw materials, and that the shortage of these was impeding her war effort already.

In this Cabinet paper we have the main programme of Allied economic-warfare policy in the penultimate phase of the war; in the period, that is, when it still seemed necessary and profitable to press the European neutrals to resist their supplies to Germany. The situation was, indeed, soon to change; during the second half of 1944 the advance of the Allied armies from east and west, and the devastation of Germany's internal economy by air attack, either cut off the neutrals from all contact with Germany, or at least promised an early victory which could hardly be retarded by any further trickles of supplies from neutral sources. But at the end of 1943 and during the first half of 1944 victory still seemed to be sufficiently far ahead to justify the strongest efforts to weaken German economy by the now classic routine of diplomatic pressure and inducement.

High-grade steel was undoubtedly a serious bottleneck in German industry, and one that the blockade might very well restrict further. Manganese, used as an alloy in special steels, was also, in small percentages, an essential constituent in the general processes of steel making, and nearly half the German supplies in 1943 came from German-dominated areas outside Russia. A summary of the position as the Ministry saw it in June 1944 is worth quoting.

An overall crude steel production of some 35 million tons was possible in 1943, but with the loss of Nikopol such a level cannot be maintained much longer. On the assumption that stocks of manganese were already low at the beginning of the year, steel output in 1944 is forecast at about 25 million tons. The enemy, however, is more interested in obtaining ample supplies of steel for immediate needs than in avoiding a catastrophic fall of production in the more distant future. He is likely therefore to try to maintain the present level of operations as long as possible. It is, therefore, hardly surprising that until well after February 1944, no direct evidence of a decline in steel output in the Western Occupied Territories was forthcoming. In June, however, reports began to filter through which tended to show that the German steel production was deteriorating in quality as well as falling off in quantity. From March onwards . . . stringent measures have been taken to economize in the consumption of manganese, both by the use of substitutes as deoxidizers and by the imposition of upward limits for the proportions which may be used for the various alloying purposes. Ultimately as much, if not more, harm is likely to be done to the Germans by the cessation of Turkish chrome and Portuguese wolfram supplies and the great reduction of Spanish wolfram supplies as by the loss of Nikopol. These important alloying

materials are essential to the manufacture of special steels for armaments and for the engineering and chemical industries. With the amounts that will now be left to her, Germany must reduce her alloy steel output very severely both in quality and quantity, and though a total crude steel output of 25 million tons per annum is rather greater than the 1938 figure, a disproportionately large tonnage of common steel would be very little use. Moreover, manganese, which would otherwise be used for common steel, will be required as a substitute for chromium wherever possible. Eventually, therefore, a total steel output of very much less than 25 million tons per annum is likely.¹

The Ministry's assumption was that, as Germany could probably not increase production elsewhere, the loss of the Nikopol supplies would substantially reduce the German steel output; on the other hand, as Germany would certainly concentrate on the special steels for which ferro-alloys were needed, the demand for these alloys would not be reduced. About 70 per cent. of German supplies of molybdenum (used to toughen steel in depth) came from the Knaben mine in Norway; this mine had been put largely out of action by the R.A.F. in March 1943, and again in a further raid by the U.S. Air Force in November. In December the Swedish Government decided not to issue any licences in respect of new orders for machinery. It was believed that production had not been fully restored as late as May 1944. About 65 per cent. of Germany's nickel came from Finland (Petsamo). In these two cases the interruption of supplies could be achieved only by direct attack on the mines themselves, or during transportation. Turkey had undertaken under the various Turco-German agreements to supply 90,000 tons of chrome ore in 1943 and the same amount in 1944 in return for armaments, and in 1943 she delivered some 45,000 tons (probably about 30 per cent. of the total German chrome supplies). But there was some evidence during the year that she was prepared to reduce her deliveries, taking advantage of administrative delays and of the failure of the Germans to comply with some of their own commitments. Although there were heavy deliveries from January to April 1944 (26,000 tons) Allied diplomacy succeeded in stopping further deliveries after 21st April.

The wolfram issue, which, as we have seen, had already been very much publicized in 1942, saw a further prolonged pre-emptive battle between the Germans and their Anglo-American opponents in 1943, and here, as in Turkey, Allied successes had been meagre for some time. Lord Selborne remarked on the 'illogical' position of the neutrals: while 'the Swedes and the Swiss, whose countries are

¹ German figures which became available after the war for crude steel production (in million metric tons) were as follows: 1943, Greater Germany 30.6, occupied countries 4.0; 1944, Greater Germany 25.9, occupied countries 2.6. U.S.S.B.S., p. 105.

surrounded by the enemy, have agreed to make heavy cuts in 1944 in their supplies of war material and other commodities of first importance to enemy Europe, the three neutrals with free access to the outside world, two of whom are our Allies, are still sending vital quantities of chrome and wolfram to Germany'. The explanation was, in part at least, that in Turkey and Portugal and to some extent in Spain, M.E.W. did not have a free hand in using economic pressure. But after a great diplomatic struggle during the first half of 1944, Spain, after first suspending wolfram exports, agreed on 2nd May 1944 to send only 20 tons a month to Germany in May and June, with a maximum of 40 tons in all for the rest of the year; all Portuguese exports of wolfram were prohibited by proclamation as from 8th June 1944.

In the ferro-alloy campaign the British and United States Governments saw eye to eye, but the British supply and other interests made it difficult for the Ministry to concentrate its exclusive attention on single objectives, such as the wolfram campaign. The result was the continuance, in slightly different forms, of the differences of approach and tempo which had characterized the attitude of the two Allies towards the neutrals in 1942 and 1943. The War Trade Department found that F.E.A. was making no secret of the fact that its intention was to protect American interests (even against the British), and the department felt that on every issue it was important to be able to convince F.E.A. that it was not getting away with anything. Thus the procurement of dollars for pre-emptive purposes was complicated by the fact that F.E.A. was taking care, by manipulating lease-lend accounts, to reduce the dollar balances as fast as the British added to them. The financing of the 'New Plan' programme in Turkey at the beginning of 1944 caused the War Trade Department considerable anxiety on this score.¹ The coming Presidential election accounted, it would appear, for some of these developments; there were some triumphs over the neutrals which it would be politically dangerous to deny to the American press and public opinion.

In these circumstances it became harder to resist the big-stick advocates inside the Administration, even when the Allies had the chance of easier or greater successes by less spectacular methods. In January 1944 the U.S. Navy and War Departments launched a new onslaught on the policy of allowing supplies to reach European neutrals, especially Sweden; exports of iron ore in excess of 'normal trade' and the non-military transit traffic via Bothnian ports provided the main ground of attack.² In the Iberian Peninsula, while the two governments were agreed as to the need and possibility of securing

¹ W. K. Hancock and M. M. Gowing, *British War Economy* (H.M.S.O., 1949), p. 526; see also pp. 537-9 below.

² See p. 476 below.

big concessions from Spain and Portugal, the British view was that it would be better to approach Portugal in the first instance with demands for a wolfram embargo; this was because Portugal was the bigger supplier, and because there were a number of other, and relatively more important, concessions, diplomatic as well as economic, to press on Spain. But the United States Government preferred to stage a quarrel with Spain, a much more unpopular country to the ordinary American. Moreover it seemed important to the United States Government to secure a 100 per cent. reduction of certain neutral supplies; 99.9 per cent. would not have been the same thing at all. On the other hand the desire to tighten the blockade in these directions was accompanied by a willingness to relax it in others.

Mr. Hull pushed himself to the end of this particular branch in his radio address of 9th April 1944.¹ He spoke of the foundations of American foreign policy and said that the period during which the neutrals and the United States were forced to accept compromises on this issue was drawing to a close: the United States could no longer acquiesce in the neutrals' drawing upon the resources of the Allied world while at the same time, by allowing espionage and the sending of essential supplies, promoting the death of troops whose sacrifices contributed to the neutrals' salvation as well as that of the Allies. There was no need for the British to do other than applaud these sentiments: but in practice they had awkward consequences. When it became obvious that some compromise must be accepted in the Spanish wolfram crisis Mr. Hull was driven to suggest at one point that the British Government should take over oil imports and with it the blame for the compromise.² On the other hand, while the United States Government was anxious to tighten the blockade in some directions it was willing to relax it in others. Thus the State Department found it impossible to maintain any longer its position on relief, and in the spring of 1944 urged a relaxation of the blockade in this connexion; here too it was suggested that if the British wished to oppose this course they should accept responsibility.³

Although these developments in American policy had to be accepted realistically by the Ministry and the Foreign Office they necessarily complicated the British approach to economic-warfare problems throughout the last eighteen months of the war. Lord Halifax put the general position in plain language to Mr. Eden in a telegram of 31st March 1944, at the height of the Spanish wolfram crisis. He admitted that the American attitude must appear unrealistic and very exasperating in Madrid; it was encouraged by a natural

¹ *The Memoirs of Cordell Hull*, ii, 1321-4.

² The officials of the State Department were, however, shocked at this suggestion (see p. 575 below).

³ See p. 614 below.

wish to avoid any public appearance of pandering to Franco, and by some feeling that if the screw were turned so far as to lead to economic chaos and the downfall of the Falangist régime there would be no cause for regret. But it was also symptomatic of a notable increase in assurance which was showing itself in all the Administration's activities, and which had been held in check as long as the military situation of the United Nations was still in doubt. Since the victories of the previous summer it had been seen increasingly in dealings with all the neutral states. The State Department believed that there was no longer any need to bribe or cajole them, for they must see that an ultimate Axis defeat was certain and that it was now to their interest to placate the United Nations, and above all the United States. To this, he said, must be added American inexperience in the art of negotiation and some insensitiveness to the susceptibilities of other nations.

This comment had a wider application than that of the immediate Spanish crisis; the American confidence in the efficacy of a policy of 'blockade' based on control at source had been a tendency in American planning even before Pearl Harbour, so that the final struggle with the neutrals became a vindication of the self-sufficiency of an economic-warfare policy based on the turning on and off of American economic power. The British view was essentially that there might be quicker and less expensive ways of reaching the same end. Great Britain was importing 800,000 tons a year (about 42 per cent. of her needs) of iron ore from Spain; and she hoped to import 120,000 out of 195,000 tons of potash in 1944. By April 1944 Spain was prepared to go so far in cutting down her wolfram exports to Germany that it seemed folly to risk a complete breach with her to secure a complete embargo. In a telegram to President Roosevelt on 15th April Mr. Churchill said that in the event of a breakdown they would perhaps have the melancholy satisfaction of being able to ruin Spanish economy by their punitive measures, but this would not help to win the war or save the lives of Allied soldiers.

The wolfram crisis in the spring and early summer of 1944 was accompanied by a similar diplomatic struggle in Sweden over ball-bearings, a campaign which has certain unique features of interest. It was perhaps the one major example during the war to an attempt to coordinate all methods of attack—aerial and diplomatic—on an economic target. The main story is told below as a part of the Swedish negotiations.¹ Here we may recall that the German ball-bearing industry had been put forward on a number of occasions in 1943 as the Achilles' heel of German war production, and both the Enemy Intelligence experts of the Ministry and the Economic Objectives Unit of the United States embassy were satisfied that conditions

¹ See chap. XVI (iii).

were unusually favourable for a decisive attack. The argument was that on the one hand ball-bearings were a vital part of practically all machines, including tanks and aeroplanes, and on the other that the concentration of nearly 50 per cent. of the German production in three plants at Schweinfurt made it exceptionally vulnerable. It was also believed that there were no considerable stocks, and that it was impracticable to create them. Ball-bearings were, however, a Swedish invention, and if German production were put out of action steps would have to be taken to prevent its replacement by large hurried imports from the great Swedish firm of S.K.F.¹ Without these replacements it was thought that the effects of successful bombing would begin to be felt within twelve months.² The campaign certainly caused the Germans great anxiety for a time, but it failed in the end to have decisive results for three main reasons. The first is that the air attacks, although heavy, were not lethal. The plants at Schweinfurt and the Messerschmitt aircraft complex at Regensburg were attacked on 17th August 1943, with a total loss of 36 heavy bombers, but with a drop in production in the ball department from 140 tons in July to 69 in August and 50 in September.³ Of the 291 American bombers of the Eighth Air Force which attacked the Schweinfurt plants in the first great raid on 14th October 1943, 62 were destroyed and 138 were more or less seriously damaged, and these disastrous losses, while in no way lessening the importance of the target, brought to a head a major crisis in Allied bombing policy and led to some delay in the furthering of the attack. Further heavy attacks on Schweinfurt on the night of 24th/25th February 1944 marked the association of British Bomber Command with the Americans in the strategic bombing of selected targets and a retreat from the campaign of systematic destruction of the major German cities which Sir Arthur Harris strongly preferred. It also marked the appearance of the P-51, the long-range Allied fighter. But the four-month delay in attack on the ball-bearing plants after the October disaster nevertheless allowed Speer and his associates, by a desperate and ruthless dispersal policy, to avoid the complete immobilization of the industry, although it had been almost at a standstill by February 1944, and was described by Speer in April as the hardest hit of any German industry.⁴ A second reason for failure was that the Germans found means of doing without ball-bearings on the previous

¹ The full story of the early history and wartime development of the Swedish ball-bearing industry is told authoritatively by Dr. Birger Steckzén in *Svenska Kullagerfabriken: En svensk exportindustri historia, 1907-1957* (S.K.F., Göteborg, 1957), a sumptuous and exhaustive study. On Schweinfurt: pp. 578-9.

² Craven and Cate, *op. cit.*, ii, 684-7.

³ *Ibid.*, ii, 696-706.

⁴ Output of ball- and roller-bearings fell from a maximum of 9,100,000 in July 1943 to a minimum of 3,800,000 in April 1944, and then rose to 5,300,000 in May and 6,700,000 in June. Wagenführ, p. 65.

scale; this was described by Speer in a speech at Linz in June as the *Kugellagerdaemmerung*, the 'twilight of the ball-bearings'.¹ Ball- and roller-bearings had been used, partly as a result of magnificent Swedish advertising, for quite unnecessary purposes, and hard work by the Technisches Amt, run by Speer's subordinate Saur, made possible a considerable reduction in their employment in every branch of German armaments. The third reason for the failure of the Allied campaign was that the flow of ball and roller imports from Sweden was not decisively reduced until the summer of 1944, after long and unpleasant negotiations, during which the British Government at one point offered Sweden, without success, 200 Spitfires as an additional inducement. A satisfactory agreement was concluded only on 8th June 1944, two days after the Allied landings in France, and a day after the Portuguese surrender on wolfram was announced. The ball-bearing campaign was, then, a concerted attack on bold and imaginative lines which failed through insufficient coordination. The Allies did not, of course, know at the time that the danger point for German ball-bearings had been passed by the spring of 1944.

In subsequent chapters we shall be mainly concerned with the two main aspects of Allied blockade policy that had been outlined in this preliminary survey of the last phase of the war: these are the intensified preventive measures against smuggling and blockade running at sea, and the diplomatic and pre-emptive campaigns in the five neutral capitals to cut off the flow of the more important raw materials to Germany. There seems to be every justification for the view that if the Germans had been able to hold a defensive position on the Continent for a longer period, and if air bombing had been no more effective against economic targets than it had been up to the end of 1943 or even the spring of 1944, then the economic blockade, in the form of the concentrated attack on the German's steel output, would have been a major factor in her defeat. Germany as it happened was hastened to her end by other means, although these were partly economic in their effects; the raw materials position and many other sectors of Germany's war economy deteriorated more rapidly after the summer of 1944 as a result of air bombing than because of the blockade, but this is not to say that without the sudden increase in bombing effectiveness the blockade would not have been the direct cause of the rapid deterioration of German economy. In any case, although this work is primarily concerned with the blockade, we must remember that the blockade was only one of a number of weapons with which the Allies fought the economic war, and that the successful air offensives of 1944 and 1945 against German industrial targets were merely supplying the attack behind the enemy's

¹ Speer (Hamburg) Documents, address to Gauleiters.

lines to which the Ministry of Economic Warfare had looked forward so hopefully in its early plans. These are points which must, however, be discussed more fully in the final chapter of this work, where some attempt will be made to assess the value and the relative importance of the various weapons of economic warfare.

CHAPTER XIV

CONTRABAND CONTROL AND SMUGGLING

THE invasion of French North Africa provided yet another of those operational imperatives which had hampered the blockade in past years. Gibraltar for the greater part of 1943 was not available as a contraband control base, and the ticklish negotiations with Spain and Portugal in the first half of 1944 also made more difficult the interception and search of Iberian shipping. However, the war was now running the right way for the Allies, and with their growing self-confidence and increasingly intricate knowledge of neutral business movements they turned energetically to the task of making the blockade in the Atlantic complete. Success—complete success—eluded them. The major threat—blockade running by enemy shipping between the two areas of German and Japanese dominion—was virtually eliminated, as we shall see in the next chapter. But the problem of smuggling could not be finally solved. There is nothing very surprising in this: it is not impossible for the seaman or the traveller to slip through even the most rigorous of peacetime customs sheds with his scent or watches or banned (if inoffensive) literature. The incentives are greater, the control, in the nature of things, less complete under wartime conditions involving reluctant neutrals over half the globe. However, as many leaks as possible were plugged. Already, as we have seen (Chapter V), the blockade regulations had been tightened in 1941 and 1942 on the movements of seamen, neutral business men, and enemy nationals, and a beginning had been made with the cutting off of smuggling materials at source. A new problem of evasion—the attempts of the defeated to escape from Europe with their lives and their loot—became more important as Allied victory drew nearer.

These were attempts to perfect the system of contraband control which for its main purposes had long since reached full development and efficiency. It was still largely a paper blockade, but the elaborate machinery of sanctions and navicerting and preclusive buying in Latin America ruled out the likelihood that any shipping company would find it worthwhile to try to run unnavicerted cargo to neutral European ports for delivery to the enemy. Before discussing the smuggling problem we must take a final look at the basic arrangements, and the last round of administrative improvements.

(i)

The Navicert System

Control continued to rest with the Blockade Committee in London, with American representation to canalize American suggestions or criticisms. The ship warrant scheme remained in operation; the threat to withdraw the warrant from a guilty ship remained the basic sanction, and was proving to be a powerful weapon even for the restraint of smuggling, although it was not sufficient by itself to prevent smuggling by individuals. The navicert system by the beginning of 1943 was working smoothly on now familiar lines, and as the war progressed it became possible to remove some neutral or reoccupied territories from the list of countries for which navicerts were required. In February 1943 Madagascar, Re-union, and Liberia were removed from the list, and navicerts and ship navicerts were no longer required for goods or ships bound for these countries. By the summer of 1944 the compulsory navicert system applied to the following countries: Sweden, Switzerland, Eire, Spain (including the Balearic Islands), Portugal, and in general all neutral European territories, Spanish Morocco and Tangier, Spanish Western Sahara, the Spanish Atlantic Islands, the Portuguese Islands (Azores, Madeiras, Cape Verdes), Portuguese Guinea, Persian Gulf territories (Persia, Iraq, etc.), Syria (for shipments via the Persian Gulf), and Turkey. All ships sailing to or from these countries required a ship navicert, with the following exceptions: (1) Ships engaged solely in local traffic between ports in Spain and ports in Spanish and International Morocco and the Balearic Islands; masters might apply for a ship navicert if they wished. (2) Ships plying between ports in Spain. (3) Ships plying between ports in Portugal. (4) Ships proceeding from Eire to a port not within the navicert area, either direct or via a United Kingdom port. (5) Ships proceeding from Eire to a United Kingdom port. (6) Tankers proceeding to Eire ports in Allied convoy. (7) Vessels plying solely within the Persian Gulf, the limits of which were a line drawn from Ras Masandam to a point immediately east of Bandar Abbas. (8) Ships bound for Syrian ports. (Syria was in the navicert area in regard to shipments via adjacent neutrals, e.g. shipments through Persian Gulf ports.) Trade on a 'compensation' basis had by this time been established between Spain and Portugal and French North Africa (Algeria, Tunis, and French Morocco) for the purpose of which a document entitled 'a Round-Trip Ship Navicert' was in approved cases issued by British consuls in Spain and Portugal to the Spanish or Portuguese vessel concerned, covering both outward and return voyages. Passengers

and mails were not carried on these vessels unless specially authorized by the terms of the Round-Trip Ship Navicert. In cases where trade, in a strictly controlled form, was allowed between French West Africa (comprising Mauretania, Senegal, French Guinea, the Ivory Coast, French Togoland, Dahomey, French Sudan, and French Niger Colony) and neutral countries in Europe the usual ship navicert arrangements applied.

The following tables show details of applications for navicerts and United States export licences dealt with in M.E.W. during this period.

Navicert Applications dealt with by M.E.W.

January 1943-May 1945

<i>Month and Year</i>	<i>No. received</i>	<i>No. granted</i>	<i>No. refused</i>	<i>No. withdrawn, cancelled, etc.</i>
January 1943 . . .	1,908	1,240	572	96
February . . .	1,314	854	394	66
March . . .	2,008	1,305	602	101
April . . .	2,313	1,619	463	231
May . . .	1,212	848	242	122
June . . .	1,563	1,094	313	156
July . . .	1,377	964	275	138
August . . .	1,046	732	209	105
September . . .	1,537	999	461	77
October . . .	1,912	1,243	574	95
November . . .	1,451	944	435	72
December . . .	1,496	972	449	75
January 1944 . . .	1,885	1,320	471	94
February . . .	1,129	734	282	113
March . . .	1,964	1,437	393	98
April . . .	1,402	911	351	140
May . . .	1,872	1,310	468	94
June . . .	1,421	995	355	71
July . . .	1,258	944	252	62
August . . .	1,021	766	204	51
September . . .	1,578	1,105	395	78
October . . .	1,774	1,330	355	89
November . . .	1,596	1,117	399	80
December . . .	1,326	928	332	66
January 1945 . . .	1,544	1,158	309	77
February . . .	1,002	701	25	50
March . . .	1,616	1,212	323	81
April . . .	1,872	1,427	327	118
May . . .	1,734	1,367	236	131

*United States Export Licence Applications dealt with by M.E.W.
January 1943-May 1945*

<i>Month and Year</i>	<i>No. received</i>	<i>No. granted</i>	<i>No. refused</i>	<i>No. withdrawn, cancelled, etc.</i>
January 1943 . . .	4,410	3,308	882	220
February . . .	3,508	2,631	702	175
March . . .	3,842	2,882	768	192
April . . .	4,100	3,075	820	205
May . . .	2,501	1,876	500	125
June . . .	2,040	1,530	408	102
July . . .	1,877	1,408	375	94
August . . .	1,811	1,268	453	90
September . . .	1,541	1,079	385	77
October . . .	1,862	1,303	466	93
November . . .	1,584	1,109	396	79
December . . .	1,028	720	257	51
January 1944 . . .	1,851	1,296	463	92
February . . .	1,367	1,025	273	69
March . . .	1,217	791	304	122
April . . .	1,513	1,059	378	76
May . . .	1,652	1,074	413	165
June . . .	1,479	1,109	296	74
July . . .	2,081	1,403	570	108
August . . .	2,007	1,405	502	100
September . . .	1,698	1,274	340	84
October . . .	2,310	1,617	578	115
November . . .	2,145	1,609	429	107
December . . .	1,852	1,389	370	93
January 1945 . . .	2,696	2,522	160	14
February . . .	1,440	1,368	70	2
March . . .	1,830	1,723	100	7
April . . .	737	730	7	NIL
May . . .	769	759	10	NIL

The only changes in the case of cargo navicerts were designed to improve Anglo-American liaison and reduce delays. During 1942 the validity of United States export licences had been modified to avoid the necessity for immediate reapplication in the succeeding quarter in the case of consignments for which facilities had been held up or granted late in the current quarter. In January 1943 corresponding changes were made for navicerts: their validity henceforth would be governed by the date on which authorization to issue was telegraphed to the Ministry. In April 1943 the Ministry agreed that all United States export licences for Turkey should be eligible for renewal for one quarter without reference to London, provided that there was no actual or suggested change in the status of the consignee. In the autumn of 1944 the change in the war situation allowed further relaxation, and the Blockade Committee agreed on 25th October 1944 that navicerts should in future be valid for a further ninety days beyond the current quarter. This concession was not intended

to interfere with the validity of the quarterly quotas, which remained unchanged. All these arrangements applied equally to navicerts issued under the inverted procedure and to United States export licences.

The centralization of the blockade administration in London did not escape neutral criticism. The conclusion of the supply-purchase agreement for Portugal on 24th November 1942 was followed by Portuguese complaints about time wasted and shipping space lost in the States through the need for prior reference of navicert applications to London. It seemed reasonable to argue that where applications were covered by an inter-governmental agreement some at least of the need for reference to London could be dispensed with in the case of goods coming from the United States, and at the end of August 1943 the Ministry agreed to the issue of United States export licences without prior reference to London for coal, cereals, fertilizers, iron and steel manufactures, tobacco, and newsprint, all of which were normally consigned to official bodies or large concerns. The next step was a proposal that for certain goods going to Portugal consolidated licences for amounts equal if necessary to a quarter's quotas should be issued in Washington in order to avoid the delay which accompanied individual applications to London. The Ministry felt that it must agree to this proposal for certain bulk commodities consigned to large or official consignees, but it was not willing to hand over all consignee control to the Board of Economic Warfare in cases where a large number of consignees was involved. In March 1944 F.E.A., in agreeing to the plan for consolidated licences, proposed to apply it only in the cases in which the Ministry had agreed to issue without reference in the previous August; it promised that prompt information would be sent to London of the details of all such licences. In the course of the discussions the suggestion that licences should be issued generally without reference to London seemed to have been dropped, but it was taken up again in the autumn of 1944. The Blockade Committee agreed on 25th October 1944 that reference could be eliminated in cases in which either a basic ration or a supply programme commitment was established and where the United States was either the sole source of supply or a source for a specified quantity; it could also be eliminated for unimportant quantities but not in cases where there was a nil quota or a nil basic ration. The case for these changes was simply that they would be expected to reduce routine work in Washington and London; the Ministry hoped that the blockade would not be weakened.

However, the more elaborate arrangements became progressively harder to defend as the end of the war approached. Modifications were introduced in the inverted procedure at this time to meet American complaints. Under this procedure the potential consignee

in the importing country had taken the initiative in approaching the Ministry, and at the end of 1944 the Ministry was still anxious to maintain the system in some form, for it had allowed neutral governments to undertake the responsibility of distributing supplies between their own importing interests. It was considered desirable that they should continue to do this where their imports were still limited by quotas. It was agreed, however, among other relaxations that the United States export-licensing authority should be free to issue licences direct to applicants provided that documentary evidence was produced that an import licence had already been obtained from the country of destination and that the consignee did not appear on any black list; the Ministry was to be informed immediately of the issue of all such licences, so that they could be checked against the lists obtained from the importing country. The United States Government agreed in February 1945, but the war was over before these modified arrangements could be introduced. When land and sea communication between the Iberian Peninsula and Germany was completely cut considerable further relaxation of control was possible, with a corresponding reduction of work at the Ministry. Early in March 1945 a modified system of control was introduced for the peninsula, under which there were quotas and restrictions only for the foodstuffs or materials specified in the 'Referred Lists'. These lists were in general based on the reserved commodity lists of the three Combined Boards. Quantitative limits were retained only where supply considerations were involved. This procedure was extended in April to Switzerland and Sweden.

A great deal of time and thought was also given to the tightening of the conditions covering the grant of a ship navicert; but the discussions on this point which had begun in May 1942 did not take final shape for nearly another year. The master's undertaking, which had been in use since 1941, was altered and adapted to bring it in line with the tighter measures of control now in operation. New clauses were introduced which were intended to improve the control generally and throw the onus for any attempted evasion on to the master. In addition, a declaration to be signed by intending passengers on eastward and westward voyages across the Atlantic was introduced. This was necessitated by the fact that passengers often carried excess quantities of consumer goods which were in short supply in Europe. Members of the crew of a ship were not required to sign an undertaking, the master assuming responsibility for their good behaviour. It was also proposed that unaccompanied luggage should in future be carried only in ships calling at a British control base, and should be entered as freight on the ship's manifest, and not overstowed. Cargo navicerts would be required for all such luggage and shipping companies would be warned that if the keys were not avail-

able the luggage would be liable to detention. The United States Government welcomed the new regulations, and suggested that clauses should be embodied in the new undertaking providing for the declaration of the amount of money which the ship's master carried for the ship's account, and the amount carried by officers, crew, passengers, and supercargoes for their own account. It was already known that captains of smuggling boats carried in the ships' safes a considerable amount of money, which they claimed was the ship's money but which in many cases was the property of the captain himself and was used for the purchase of goods to be smuggled back on the return voyage. With this useful addition the new master's undertaking for eastbound voyages was sent out on 19th August 1943 and introduced by the navicert issuing posts as they received it. Under these new regulations the master of a vessel receiving a ship navicert was made responsible for the good behaviour of his passengers and crew. He undertook to search the ship thoroughly before departure for stowaways or smuggled goods, to keep a strict watch on all mail carried and to make available to the British authorities any letters written and posted during the voyages.

Similar undertakings to be signed by masters and passengers on voyages from the navicert area were approved by the Enemy Exports section of the Contraband Committee in August, and the stricter control introduced as from 15th September 1943. These declarations were similar to those for the eastward voyages in most respects. The master of a westbound ship was, however, required to state the total sum in currency, coin, bank notes, postal orders or money orders carried on board for use during the voyage. There was also a clause covering the carriage of money by individuals on the ship.

The introduction of the new regulations was not effected without some difficulty. In Lisbon the British consul-general felt that it would be undesirable to exact undertakings from travellers to the Portuguese Islands and colonies and that to do so 'would constitute a further and unnecessary irritation'. He had therefore introduced the new master's undertaking on 15th September without the clauses relating to money and passengers. Then on 12th October the Portuguese Government agreed to the British request for bases in the Azores¹ and M.E.W. decided that in view of these developments it would be best to give way over the introduction of the passenger's declaration for voyages to and from the Islands, particularly as it had in any case 'already been emasculated by deleting the money and security paragraphs'. It still required all control over travellers to and from Mozambique and Angola, since it was believed that smuggling of industrial diamonds and illicit mail-carrying was taking place from these colonies. But the consul-general was unconvinced

¹ See pp. 588-90 below.

of the necessity for any undertaking, and after further argument the Ministry gave way and on 11th April 1944 agreed that no passenger declarations would be required for voyages between Portugal and the Portuguese colonies. A master's undertaking for voyages between Spanish and Portuguese colonies and Metropolitan Spain and Portugal had however been introduced on 9th March 1944. This was a slightly amended form of the recently-instituted undertakings for trans-Atlantic voyages. No reference was made to passenger declarations in the undertaking and the clause binding the master to call at a British control port for examination of mail was omitted in view of the existing agreement with the Spanish and Portuguese Governments that ships of these two countries sailing to their colonies were not required to call at a British base when carrying mail. There was, however, considerable smuggling on these routes and in several cases, as a result of information received, ships were intercepted and contraband discovered in the mails.

Meanwhile it was realized that control was not exercised so rigidly as it might be in some of the British Dominions and Colonies. There were instances of ships arriving in the navicert area from one or other of the Empire ports without the necessary documents, thus laying the British authorities open to the criticism that regulations forced upon neutrals were not so strictly observed by the Allies. In August 1943 the Colonies and Dominions were asked to tighten their control and insist on ship navicerts, though Empire export licences took the place of cargo navicerts. The Colonies at this time were still often ill-informed about the problems of contraband control and in some instances were making no attempt to enforce the ship navicert procedure, only issuing a ship navicert when asked to do so by the master. Such gaps in the control, particularly in Africa, provided excellent opportunities for smuggling. At the end of 1943 the Dominions and Colonial Offices were again asked to take the whole matter up with the relevant governments, and particularly with the Union of South Africa, and ask that the ship navicert procedure should be strictly adhered to for all vessels sailing to the navicert area, and that masters of all such vessels should be required to sign the revised undertaking. Copies of a pamphlet on 'The Axis and Smuggling', recently produced by M.E.W., were sent to the various Empire authorities in an attempt to emphasize the serious nature of the problem. The Union Government responded by tightening its general contraband control regulations and by instituting a thorough supervision of ships arriving in South African ports. In March 1944 the East African Governors' conference decided that an attempt should be made to establish some control over dhow traffic to the Persian Gulf, and the Ministry warmly welcomed the proposal. After some discussion, however, it was found that ship navicerts were not required for ships

going to the Arabian States. A telegram was sent to Beira on 6th May asking that if a call at Dar-es-Salaam could be enforced, the opportunity should be taken to search ships for smuggled goods.

(ii)

Passenger Control: War Criminals

By the beginning of 1943 the need to control the movement of undesirable neutrals and enemy subjects was very much less urgent than in previous years. The repatriation of enemy nationals from Latin America had been dealt with in cooperation with the Foreign Office and Security Services, and the results had been on the whole satisfactory from the Ministry's point of view. Enemy merchant seamen and key technicians who would have been of use to the Axis were left in the Americas; the Axis had also failed to secure the services of neutral experts from Latin America. There was indeed little to attract the neutral away from the comforts of Latin America, and it was found possible to deal with the few cases which did arise—mainly of Frenchmen—under the existing machinery of passenger control. The system of passenger control for ships sailing under ship navicerts was working smoothly and it was considered unnecessary to press for any stricter control. Enemy nationals or dangerous persons were only allowed to travel from Latin America after reference to London; similarly, it had been arranged that enemy nationals should only be allowed to travel from Europe after permission had been obtained from London. An exception was made in the case of refugees, for reference of every such case to London would have added very considerably to the work of the Passport Control Officers, and would have seriously interfered with the work of the refugee organizations in Europe. It was finally decided therefore that Passport Control Officers need only refer those cases in which they had definite suspicions. In the spring of 1943 the contraband control base at Bermuda was closed down and interrogation of westbound passengers was therefore impossible, but since the control of seaborne passengers in the Peninsula was now so effective no attempt was made to replace the control formerly exercised at Bermuda. There were, however, still gaps in the control of air traffic, particularly on the route from Portugal to Portuguese Guinea and Brazil.

By the summer of 1944, when land and sea communications with Germany had been cut and smuggling had virtually ceased, some relaxation of passenger control and ship navicert regulations might well have been expected. But the approaching end of Nazi Germany brought new problems. Owing to American pressure M.E.W. had

been obliged to agree to the repatriation of Japanese nationals in Argentina without a search of their baggage, and there was the possibility that an attempt might be made to send contraband from Europe to these repatriates for onward carriage to Japan. Continued control of ships sailing from neutral countries in Europe was also essential if the escape of war criminals and loot was to be prevented. Though this latter problem was perhaps not strictly one of economic warfare it was dealt with by M.E.W. through the machinery of contraband control.

The chief escape route was likely to be the Peninsula. The first proposal was that as many outward-bound Spanish ships as possible should be intercepted and searched, together with as many as possible inward bound from the Islands, where it was possible that the Germans still had consignments of valuable materials which they would try to secure. The Admiralty, however, could not guarantee to intercept every outward-bound Spanish ship. It was then decided, with Sir Samuel Hoare's somewhat reluctant agreement on 25th August, that all outward-bound ships from Spain to the Islands and to Central and South America should be navicerted to Gibraltar for control, with the exception of those normally navicerted to Trinidad. He also agreed to the immediate navicerting of all Spanish ships from the Islands to Gibraltar for search, and at least one interception of the Algeciras ferry. The ship navicert regulations for ships sailing from one Spanish port to another were also revised: in the past it had not been necessary for these vessels to obtain a ship navicert except at the last port of loading before leaving the Spanish mainland, with the result that passengers embarking at the intermediate ports had sometimes escaped examination.

Satisfactory arrangements were also made to control Swiss and Swedish ships at Gibraltar and the Faroes. But the familiar difficulties were encountered in Portugal. There was already such a shortage of merchant shipping that the Portuguese Government had been obliged to ask for help from the Ministry of War Transport, which had no desire to meet increased demands for assistance. In commenting on the proposals to which Madrid had already agreed, Sir Ronald Campbell, on 14th September 1944, discounted the danger that information and contraband might be sent from Portugal to the Japanese in Argentina,¹ but agreed to the diversion of ships en route to America since in any case these were very few in number. He did not, however, agree to the diversion of ships sailing between Portugal and the Portuguese Atlantic Islands or between Portugal and Africa as he felt that this would involve serious political difficul-

¹ He thought the risk was not high because it was simpler to telegraph information direct from Lisbon to Tokyo. M.E.W. explained that what they had particularly in mind were such things as blue prints and small articles of high value.

ties for the shipping companies concerned and lead to violent protests from the Portuguese Government. After further insistence by the Ministry on the importance that was attached to the interception of loot and of war criminals the ambassador agreed reluctantly to put the proposals forward, but he reminded the Foreign Office on 16th October that Dr. Salazar 'had consistently refused to do what he used to describe as collaborate in any British blockade measure'. It was not solely a question of violating a sacred principle. The increased length of voyage and the delay involved in calling at Gibraltar and Trinidad would, the ambassador considered, be a calamitous blow to Portuguese economy unless shipping assistance could be offered on a large scale in return. However, by this time the situation had changed considerably, for Dr. Salazar had agreed not to offer a sanctuary to war criminals and had also met the Americans over their request for facilities at Santa Maria in the Azores. It was therefore agreed that the new controls should be applied in principle but that in practice all Portuguese ships should be navicerted to their destination and a small percentage (15 per cent. to 20 per cent.) should be intercepted and diverted to Gibraltar.

(iii)

Crew Control

The strict control of seamen serving on neutral ships, which had been introduced in July 1942, was continued in 1943 and 1944 in the hope that by preventing known smugglers from sailing and keeping suspects under observation it would be possible to effect some reduction in the considerable volume of smuggling which was being carried out on behalf of the enemy. The Ship Warrant scheme remained the normal means whereby M.E.W. was able to secure the removal of undesirable seamen from neutral vessels; all shipping companies in neutral countries were told that a ship navicert would not be granted to any vessel if the crew included any seaman to whom M.E.W. took exception; crew lists of all warrant-holding vessels had to be vetted by consular officers at the port of departure. To assist the latter in checking these crew lists M.E.W. compiled a Crew Control List, which embodied (1) the Confidential List of Undesirable Seamen, containing the names of men who were banned by M.E.W. from further employment, and (2) the List of Suspect Seamen, consisting of the names of suspects who were kept under observation but not penalized in any way. Brief summaries of the evidence against each man were shown in the lists. Inclusion in either list was not regarded as final. An 'Undesirable Seaman' who had been

banned for some time might be reinstated if it was later considered that he had been sufficiently penalized. In some cases he would be required to sign an undertaking with regard to his future conduct. Those on the Suspect List might also be deleted if favourable reports were later received about them.

As was only to be expected, crew control did not have a ready acceptance in Spain and Portugal, the two countries most concerned, and difficulties also arose over the control of crews on Swiss and Greek ships. The Portuguese authorities apparently accepted the general principle of crew control in the same way that they had accepted passenger control. Difficulty soon arose, however, over the British proposal that before a crew list could be approved, Portuguese seamen must produce their *cedulas maritimas*. The Portuguese authorities had no objection to the production of *cedulas* by the crews of ships sailing to United States or British Empire ports, but felt that in the case of ships bound for neutral or Portuguese ports the production of these documents to a foreign authority would be an offence against Portuguese sovereign rights and participation in British blockade measures. A circular issued by the British consul-general said that before a ship navicert could be issued a full statement in quadruplicate of the crew must be produced. A Portuguese note of 7th December 1942 said that

the ruling of this circular cannot be accepted for Portuguese ships which are destined only for Portuguese ports. The clearing of these ships in these ports is an act which only Portuguese authorities are competent to carry out, by virtue of sovereign right. Such ships in such ports ought therefore only to be cleared by these authorities and not by foreign authorities.

The British request for the removal of a certain Captain Carlos Arruda from the command of the s.s. *Costeiro 11* on 5th November had already brought a protest from the Ministry for Foreign Affairs on 4th December. In this note, as in that of 7th December, the Portuguese protested against what they considered was British interference in Portuguese domestic affairs.

In a reply to both notes on 29th January 1943, the British Government expressed its determination to enforce crew control, but agreed that except in special cases consuls should not insist on the production of *cedulas* as a condition of the grant of a ship navicert. The case of Alfredo Harbertz, a naturalized Portuguese of German origin, also threatened to cause trouble. Harbertz was suspected of having carried German mail between Lisbon and Loanda in August 1942, and of being pro-Nazi. The Minister of Marine took a keen personal interest in the case and it was thought that he might order the ship to sail without a ship navicert should this be refused on the grounds

of Harbertz's undesirability. The British consul-general was given full discretion to act as he thought best if he was satisfied that the company would implement their undertaking, and he allowed Harbertz to sail. By giving way in this case M.E.W. avoided the possibility of serious trouble with the Portuguese Government, and on 2nd March 1943 the British ambassador in Lisbon reported that the Portuguese Foreign Minister had made a suggestion which showed that he was ready to go at least some way towards meeting the British over crew control. This was that the embassy should unofficially give the names of any seamen considered undesirable to the Ministry for Foreign Affairs, which would then give the names to the Ministry of Marine, which would take the necessary action. The ambassador agreed to try out the experiment and from this time on crew control seems to have worked smoothly enough in Portugal.

There were somewhat similar reactions in Spain. In February 1943 the British consul at Cadiz refused a navicert to the s.s. *Romou* unless the owners agreed to the removal of the first officer. The Minister of Foreign Affairs thereupon expressed his 'surprise at the conduct of the British consul at Cadiz, and the extreme annoyance of the Spanish Government at his interference in matters so far outside his competence'. During March Sir Samuel Hoare urged that where an undesirable seaman was a member of a ship's crew a ship navicert should not be refused but the man's removal obtained 'by more tactful means'. M.E.W. could not agree to withdraw the threat of refusal of ship navicerts, but three months later, apparently in an attempt to find the more tactful solution that the ambassador recommended, it suggested that an attempt should be made to secure an arrangement with the Spanish Government similar to that recently agreed to by the Portuguese. The embassy did not look with much hope on this solution, for shipping arrangements in Spain were very different from those in Portugal. The Spanish Government refused to recognize or have anything to do with the ship navicert or ship warrant system, but left ship-owners free to make their own arrangements with the British authorities. This system worked very well and good relations had been established with Spanish shipowners; the Spanish Government might, therefore, if confronted with a list of suspect seamen, refuse to take any action against the men concerned, but quite possibly take action against the crew control system itself. However, it did, in the end, decide to take some responsibility for its seamen. On 28th June the Spanish ambassador in London complained to the Foreign Office that the British authorities in Trinidad had subjected the crew of the *Cabo de Buena Esperanza* to an interrogation concerning their political sympathies. This led to a correspondence in which the British Government claimed to have direct evidence that the German espionage services had recruited agents amongst the

crews of Spanish ships and that such agents were commonly chosen from members of the Falange party. On 26th October the Foreign Office was told that the Spanish Government could not accept this explanation, but 'would be prepared to accept a friendly formula to the effect that, when the British Government consider that they have evidence that some member of the crew is in the service of the enemy, they should in due time so inform the Spanish Government in order that the latter in utilization of the powers devolving on them may carry out energetically and urgently the investigations to which the accusation may give rise'.

The difficulty with regard to Swiss crews was that in many cases they were signed on in Genoa or Marseilles. Crew lists were not received by the Swiss authorities until the ships were on the point of sailing. It was therefore arranged in Berne that after 24th August 1942 the Swiss shipowners should present a list of any members of the crew they intended to sign on. This list would be passed, and when the ship sailed the captain would send a complete list to the Swiss War Transport Office showing the full crew with all the details required. A copy was to be sent immediately to M.E.W. and it was made clear that such an arrangement would not prevent any man who was considered objectionable from being removed at a control base. This arrangement was approved in M.E.W. on 15th September. On 14th December it was decided that as the authorities in Berne had no means of checking the accuracy of the crew lists submitted to them, the lists should be submitted by the Swiss shipping representatives in Lisbon to the British consul-general there. The arrangements were not altogether satisfactory: during the early months of 1943 it became known that seamen on Swiss ships were being signed on and off in ports outside Europe, thus leaving a gap in the control of crews. However, it was decided at this point to refuse navicerts altogether to the Swiss and consequently their ships stopped running. Strict regulations were eventually made by the Swiss authorities concerning smuggling and mail carrying on their ships and M.E.W. admitted that 'it was hard to see how they could be improved'. Evasion could not, on the other hand, be prevented. Nevertheless in February 1944, when navicerts were again being granted, M.E.W. admitted that little information against these crews was coming in.

In general, then, after some initial opposition, shipping companies and maritime authorities in all the neutral countries cooperated to a marked degree and frequently dismissed offenders without being asked to do so. Crew control, apart from the difficulties already mentioned, was found to work successfully enough and besides making smuggling a dangerous proposition for seamen, who ran the risk of losing their jobs, it was instrumental in eliminating a number of enemy agents from neutral vessels. It was, however, only an adminis-

trative procedure, backed up by the ship navicert and ship warrant systems. The Crew Control Committee had no statutory powers; it only considered and approved cases for inclusion in the List of Undesirable Seamen. All it could do was to instruct consular officers that 'ship navicerts should normally be refused in respect of any vessel whilst any individual listed as an undesirable seaman is a member of the crew's personnel'. Any master who chose to sail without a ship navicert would render his ship liable to seizure, although a ship would probably not be seized for that alone. M.E.W. felt confident that normally it would be strong enough to get its own way without serious trouble, but that the whole system must be treated 'like a screw, not a nail'.

(iv)

Ships' Stores

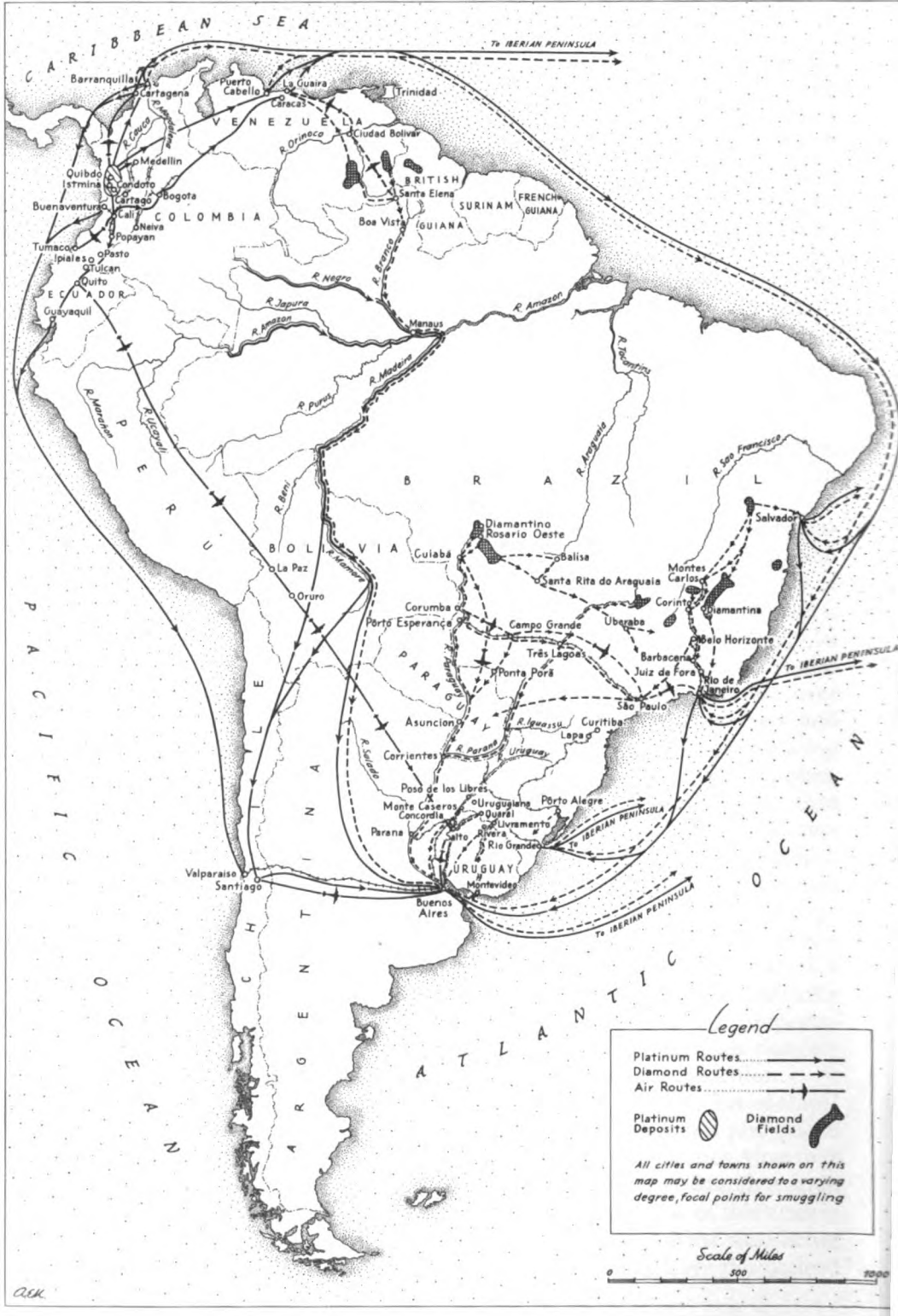
Contraband could also reach the enemy after being disguised as ships' stores, or, in the case of articles of small bulk, concealed amongst food and other goods which were ostensibly for use on the voyage. There were reports from reliable sources in Buenos Aires and elsewhere that the excessive stores carried by Spanish vessels were being used in this way. Masters were reported to be continually violating the ship navicert regulations and loading large quantities of stores—chiefly soap, hams, bacon, and lubricating oil. Almost every member of the crews of these ships was said to be carrying mails. Excess stores were discharged at Las Palmas to be purchased by the Woermann Line (which was controlled by Essberger of Hamburg), placed aboard German vessels anchored in the outer waters, and passed under cover of darkness to Axis submarines. In December 1942 a very large quantity of manila rope was discovered hidden on board the Swedish ship *Danaholm*, and this discovery, together with the disquieting reports already received, led to the introduction by M.E.W. of measures to restrict the excessive shipments of stores.

Already in April 1942 the United States authorities had introduced measures of control designed to prevent the excessive export of fuel, spare parts, and food disguised as stores: henceforth Spanish, Swedish, Swiss, and Portuguese ship operators had to apply for individual export licences for all bunkers and ships' stores beyond those required for the outward voyage. Seven pounds of food per man per day were allowed for the inward and outward voyages with an extra 20 per cent. per man as a safeguard against delay. General licences were issued only for the fuel, stores, and supplies necessary for consumption on the outgoing voyage. In a number of cases this had resulted in

a reduction in the amount of stores for which an export licence application had been made. By January 1943 the British consul-general in Buenos Aires in collaboration with the intelligence officers and the American Bunker Fuel Advisory Committee, was making determined efforts to stop the leakage. Stocks of lubricating oil were carefully checked, stores lists covering all stores on board the vessel on arrival had to be presented to the Argentine Customs and all stores loaded in Argentina were checked by the British consular security officer. All mail was sent to the consulate to be checked with the ship's manifest. The result was that several ships were caught out. The majority of these were Spanish, but Swedish, Portuguese, and Swiss ships were all treated in the same way. All these ships were subjected to careful checking when any stores were off-loaded and a vice-consul and the consular security officer witnessed the operation. The navicert was then issued personally to the master on board the ship prior to sailing after he had made a further declaration in the presence of these two officers.

In January 1943 general instructions were sent out to British representatives in South America with regard to the control of stores on ships sailing from Latin America to the navicert area. Masters of vessels were to be warned that stores not covered by cargo navicerts might only be carried in such quantities as could reasonably be required on the voyage to Europe and back. Any quantities considered excessive must be off-loaded or carried as freight under cover of a navicert. The term 'ships' stores' included food for crew and passengers, equipment, spare parts and replacements, lubricating oil (but not bunkers), cabin stores, medicinal and surgical supplies, and dunnage. It was reported from Madrid in February that M.E.W.'s determination to prevent the disposal in Spain of any surplus stores was causing a considerable amount of ill will: Spanish shipowners and officials were inclined to regard it as a cruel attempt to prevent them from supplementing their very meagre food supplies, especially as many of their ships, particularly those of the Aznar line, were regularly taking supplies of foodstuffs from America to British consular staffs and communities in Spain. One difficulty was that the Spanish Government would not authorize the importation of semi-luxury goods and the shipments had to be made clandestinely, although not without the help of the local authorities.

By March 1943 M.E.W. was ready with a complete list of ships' stores for the guidance of consuls in Latin America, but just before the list could be circulated word was received from Buenos Aires that the Argentine Government were introducing on 31st March a scale of provisions for all ships leaving the country. In view of this news it was decided to leave the M.E.W. list in abeyance for the time being in the hope that the Argentine regulations would have the desired



South America: Industrial diamond and platinum smuggling routes

effect of controlling the traffic. It soon became clear, however, that the restrictions were not being enforced. Reports from Las Palmas showed that large amounts were still being unloaded there; 24 tons were landed in May and over 39 tons in June. Accordingly the Ministry decided to circulate its own list of the quantities considered reasonable. The estimates of foodstuffs were based on a voyage of nine weeks with three different complements of crew. Paint, rope, and general deck and engine-room stores were calculated for a voyage of the same duration and for vessels of between four and five thousand tons gross registered. This list was only intended as a guidance for consuls when checking the loading of stores but appears to have been rigidly adhered to in some cases and to have caused a certain amount of confusion. It was based on the British standard plus 25 per cent., but even so some of the British officials in South American ports considered the quantities too large. On 1st June 1944, therefore, an amended list was circulated which also extended the number of commodities previously quoted. It was emphasized again that the quantities given were for guidance only and were not meant to be a standard ship store list. The amounts given were for a voyage of nine weeks' duration and for crews of thirty-six, forty, and forty-nine. The general feeling in Spain seemed to be that while 'most Spanish ship-owners accept these measures placidly, others scarcely conceal their view that we are meddlesome and inflexible busybodies interfering in a purely Spanish matter, and these are inclined to smile at our suggestion that stores they used to receive from ships' stewards might contain goods for the Axis'. The stricter measures of control, however, and the refusal of navicerts to any masters who broke their undertakings had the desired effect and the traffic in excess stores virtually ceased.

(v)

Smuggling

All these devices were designed to eliminate smuggling, which by the end of 1942 had become the most considerable gap in the blockade, and one which was believed to have increased steadily during the last four months of the year. This fact was encouraging in one respect: it meant that the enemy's need was great, great enough to justify the risks and the high prices that smuggling could offer. But it was difficult to control and there was no one method by which it could be stopped. Several ships sailing to Europe had been intercepted at the end of 1942 and in one instance contraband had been found, on the Spanish ship *Monte Gurugu*. Operational reasons

connected with the Allied landings in North Africa then made it impossible to use Gibraltar to any great extent for the search of trans-Atlantic vessels and the interceptions had to be discontinued for the time being. After this the Ministry had to rely on indirect means to make smuggling both dangerous and unprofitable. Under the new ship navicert regulations goods carried by passengers and crew could be controlled to a certain extent and a ship navicert might be refused if the regulations were openly flouted. Seamen known to be working for the Axis were dealt with under the recently-instituted crew-control measures, and were excluded from employment on any vessels requiring British ship warrants and ship navicerts. Persons on shore known to be acting as agents or intermediaries were placed on the Statutory List. These measures undoubtedly had a deterrent effect, but could not of themselves prevent smuggling entirely, and it was decided that the most hopeful way to tackle the problem would be to accumulate full and comprehensive intelligence reports on every aspect of the subject, in order if possible to provide advance information of smuggling attempts. Owing to the nature of the goods most often smuggled it was exceedingly difficult to discover anything unless previous information about possible hiding places and about the men concerned had been received. Reports were therefore required on the actual commodities concerned, and the production areas for each one, as well as precise information about the men handling the goods both before and during shipment, methods of shipment and hiding places on board, and the final routes by which the smuggled goods reached the enemy.

The gathering of this detailed information by the Ministry called for close cooperation with all the Departments concerned, both British and American, and particularly with the Intelligence Services. This appears to have been achieved with some success, for by January 1943, as a result of discussions with the Security Executive in London, Consular Security Officers abroad were instructed to pass on to M.E.W. representatives all intelligence which they obtained. Missions in North and South America were warned to keep a close watch on ships leaving for the Iberian Peninsula and received fresh instructions regarding stores and other possible channels for smuggled goods. The Americans also began to show a keen interest in the problem after the spring of 1943. They were at first inclined to be critical of the efforts that were being made to restrict the traffic, and made repeated requests for increased interception and for drastic measures such as a 'navicerts holiday' by which they hoped to force the hands of neutral governments by continued delays to shipping. In this they failed to appreciate the essence of the problem, which was that smuggling was carried out by individual seamen and that owners and shippers often had no knowledge that it was taking place

on their ships. Sanctions such as the refusal of a ship navicert, cancellation of a warrant, or even seizure of a ship, effective enough when the question was one of unmanifested cargo, or when the owners were openly conniving at blockade evasion, or even when there was definite evidence of smuggling on a particular ship, could not be employed here. Nor would continuous searches be fully effective unless there were reasonable certainty of finding contraband. Random searches which continually yielded negative results were, in the opinion of M.E.W., more likely to bring the whole system into disrepute. Both governments were agreed, however, that before the normal blockade machinery came into action there was much that could be done to defeat smuggling, so to speak, at source. The Ministry recognized at an early stage in the campaign that counter measures would be more effective if control were to some extent decentralized, and each mission in Latin America and the Peninsula put in a position to take local action against German organizations on shore as well as against ships and seamen. In February 1943 each mission was asked to appoint one officer to coordinate all local action.

Some interesting facts emerged from the collation of information about the smugglers and the commodities. The linking of the two made it possible to trace, for example, the passage of Brazilian diamonds from the source to the hands of enemy agents. It was found that most of the platinum was scrap metal collected by jewellers in South America working for the enemy. By the autumn of 1943 sufficient information had been collected to enable the brochure on 'The Axis and Smuggling' to be compiled in the Ministry and circulated to all the interested posts abroad. Armed with this increasingly precise knowledge the agents of the two Allies could do something to stop the more precious goods from ever leaving South America, and their efforts were furthered by the determination of Washington and London to eliminate rivalry and competition between the Allied agencies themselves. Earlier there had been a degree of secrecy which had sometimes defeated its own purposes, as on one occasion when a suspected smuggler had been met on his arrival at a European port by agents of half a dozen competing British and United States intelligence organizations.¹ But as a result of the Ministry's instructions in February 1943 satisfactory arrangements were made by the missions to coordinate their anti-smuggling activities. In Argentina the British consul-general acted as coordinator and there was close cooperation between the various British departments. The United States embassy agreed to work with the British. At Rio de Janeiro weekly meetings were arranged at which all interested British

¹ D. L. Gordon and R. Dangerfield, *The Hidden Weapon*, p. 51.

department were represented and at which all intelligence material was considered. At Montevideo the British and American representatives agreed that very little, if anything, was smuggled direct from that port to Europe; they hoped, however, to prevent any possible attempt in the future by working closely with the port officials. In April 1943 a visit by Mr. H. K. Fleming, representing the Board of Economic Warfare, helped to increase interest and to strengthen collaboration between the British and Americans.

The United States authorities, acting through agents of F.B.I., took an increasingly close interest in anti-smuggling activities in Latin America. In Colombia, for example, trading posts were set up far into the interior and platinum was purchased near the streams where it was washed out of the sand; this form of pre-emption was aided by payments in goods which were scarce and more attractive than the money of the enemy buyer. The main source of smuggled platinum was still, however, scrap. There was a lively cloak-and-dagger quality about some of the other activities, in which both British and American agents took part; they sometimes managed to infiltrate into smuggling groups and black market circles, and by black market purchases, payment to informers, and continued study of the movements of prices in relation to shipping and the known smugglers, gained a wide knowledge of the field. Their accurate information often enabled them to make use of the Latin American police, and to secure the arrest and conviction of enemy operatives.¹ These activities, useful though they were, did not, however, stop smuggling; smuggled contraband was still reaching Europe through 1943 and 1944, and the need for effective interception remained. Opinion in the Ministry was generally against the pre-emption of diamonds and platinum in Latin America, fearing that this would merely involve the Allies in a price war with the Axis without appreciably reducing supplies available to the enemy.

Some problems were, indeed, never really solved. They included the impossibility of denying officials from neutral embassies and legations in Latin America access to their own ships; the immunity of travelling diplomats from search; the abuse of the diplomatic bag; the impossibility, owing to the political situation, of securing the cooperation of officials in Argentina; and the fact that eastbound ships could call at the Canary Islands before passing through the Gibraltar controls. All these were different facets of the basic problem of controlling Spanish ships, which were the principal, although not the sole, means of smuggling contraband to the enemy.

The commodities smuggled included diamonds, platinum, mica, ipecacuanha, quinine, caffeine, liver extract, and cholesterol. The

¹ *Ibid.*, pp. 49-52.

most important were diamonds and platinum.¹ Smuggling routes in Latin America were traced to the main ports (see map facing p. 435). Constant reports were received of the smuggling of both into the Iberian Peninsula. By May 1943 the price of platinum in Lisbon had risen to £70 to £80 per ounce, as against the normal price of £9. The British embassy at Buenos Aires was asked on 27th May to pay particular attention to the smuggling of platinum and to try to secure stricter local control over platinum scrap. By April 1944, however, the price had fallen considerably. Although Germany was perfectly willing to buy and to pay high prices, the Enemy Resources Department in M.E.W. had never been really convinced that she was desperately short of platinum, and the Department was inclined to believe that the control measures, including the discoveries on board the *Monte Albertia* in September 1943 (see p. 442 below), had reduced the traffic to some extent. That substantial amounts of diamonds were getting through the blockade was proved by the fact that early in 1943 the Americans in Lisbon were offered 20,000 carats. Brazilian production of diamonds was estimated at 450,000 carats a year, of which the United States took 300,000. Venezuelan production was estimated at about 50,000 carats a year, of which 50 per cent. could not be traced, and was believed to be smuggled to the Axis. There was thus a pool of at least 175,000 carats a year available to the Axis and according to a secret American report about 1,000 carats were reaching Spain each week.

Although diamonds and platinum came chiefly from South America, alternative routes open to smugglers were provided by the Spanish and Portuguese ships trading between the Peninsula and the west coast of Africa, particularly Angola, and by the numerous airlines across Africa, which were extremely difficult to control. It was impossible to search every vessel on the West African route, and mica, diamonds, and gold, all of high value and comparatively small bulk, continued to get through to the enemy. Occasional interceptions were made as part of a general programme introduced by M.E.W. at the end of 1943, but here again, in the absence of specific information that goods were being carried on a particular ship, it was exceedingly difficult to find anything. With regard to the air routes, aircraft from the west coast of Africa were going north to the Peninsula and to the Middle East and on both routes diamonds were

¹ The two most important uses of industrial diamonds were in (a) diamond-bonded wheels for cutting tungsten carbide tools, and (b) diamond dressers for truing grinding wheels. They were used in lathe tools, wire-drawing dies, boring crowns for core drills, circular saws, drilling holes in glass, porcelain, etc.; generally speaking, without industrial diamonds there would be a great loss in productive efficiency in the armament, aircraft, machine tool, and mining industries. Platinum was important for electrical purposes for contact points, as heat elements, and in scientific instruments; important chemical uses were in use as a catalyst in making nitric and sulphuric acids; use in aeroplane magnetos, and as a coating for searchlight reflectors

being smuggled. All these routes in British and French West Africa were by the spring of 1944 being controlled at Bathurst, Accra, and Lagos, and by the French at Dakar. In British West Africa the control was organized by the Resident Minister, Lord Swinton, who had the active support of the local police and customs authorities and of the local American authorities. Both R.A.F. crews and civilian passengers were subjected to a thorough search by Security personnel and members of the R.A.F. Provost Marshal's staff. The eastward routes to the Middle East and the north to south route, however, remained uncontrolled, although it was hoped to set up a similar system in Khartoum to that in West Africa. Control of the diamond mining operations industry in South Africa was good and steps were taken in the summer of 1944 to strengthen the security measures in the Belgian Congo, Angola, and British West Africa. It was hoped to secure the cooperation of the Belgian and Portuguese Governments in this, but before these measures could come fully into operation communication between Germany and Africa had to a large extent been cut by Allied operations in Europe and smuggling on behalf of the enemy had virtually ceased.

The trans-Atlantic route from South America, and particularly from Argentina, to Spain and Portugal remained the most important from the point of view of smuggling and unceasing efforts were made to increase control over ships using this route. In April 1943 it was decided that in addition to a rigorous application of crew control and a more frequent and thorough search of ships as soon as facilities were available, the offending companies should be warned when there was reason to suspect certain vessels and asked what measures they had taken or were proposing to take to prevent smuggling on their ships. If they failed to adopt satisfactory precautions, ship navicerts would be withheld and ship warrants withdrawn from all their ships. However, there were, as we have seen, many difficulties in the way of frequent and successful interceptions. One was the impossibility of using Gibraltar for this purpose during the greater part of 1943. Another was the fact that most vessels sailing to Spain from South America called at the Canary Islands, where it was quite possible for smuggled goods to be discharged and forwarded to Spain and Germany by air or by parcel post, or on ships which traded only between the Islands and the mainland and were consequently not so liable to interception. The best solution to this difficulty would have been for trans-Atlantic ships to be intercepted south of the Islands. This was done on two occasions, on both of which contraband was discovered; more frequent action was impossible owing partly to lack of a suitable base, and partly to the shortage of suitable patrol vessels. In January 1944 an attempt was made to prohibit the call at Las Palmas, but as Spanish ships made the call there to refuel

and as it could not conveniently be arranged for them to do this elsewhere, the suggestion had to be abandoned. In February 1943 the United States Navy banned the use of Bermuda as a control base and the proposal was made that an alternative base should be established at Dakar. The Ministry would have welcomed this means of improving interception south of the Canaries, but difficulties over accommodation and staffing, together with the fact that by the end of 1943 the congestion at Gibraltar had very considerably decreased, led the Admiralty to favour an increased use of Gibraltar rather than the establishment of a new base at Dakar. The Ministry hoped also that the threat of more frequent diversions and searches would induce the Spanish and Portuguese Governments to take more drastic steps to suppress smuggling, although it was thought unlikely that the Spaniards would be prepared to take or would be capable of taking effective steps.

The view was emphatically confirmed by the British embassy in Madrid on 17th June, with the rather unhelpful statement that very little important smuggling of a general nature into Spain was taking place by overseas boats. In Lisbon, on the other hand, the competent department of the Ministry of Foreign Affairs undertook to study the question and to consult the Ministry of Marine and the Customs as to the adoption of measures to check the traffic. Sir Ronald Campbell therefore suggested that suspected offenders should be denounced to the Portuguese authorities so that they could be dealt with under existing customs regulations. In Madrid, however, Sir Samuel Hoare was throughout inclined to oppose any suggestion for the increased diversion of Spanish ships, unless there was a very strong possibility that important attempts at smuggling would be uncovered.

In the meantime the American authorities were continually pressing for more frequent diversions, and were not at first very well informed either about what was being done or about the difficulties of doing more. Some of the difficulties were of their own creation. In December 1942 the Ministry was puzzled to find that the Americans were placing restrictions on the use of Trinidad as a contraband control base and at the same time expressing concern at the inadequacy of the British control arrangements there. Later it became clear that this was merely another instance of two branches of the administration—naval and blockade—working in water-tight compartments. Trinidad was again put forward in June 1943 in a letter from the United States embassy which suggested that in view of the unsettled conditions in Argentina and the fact that the Germans might make a determined effort to smuggle out war materials and agents while they could, as many ships as possible should be thoroughly searched there. Both the Ministry and the Admiralty considered that a mass diversion to Trinidad was out of the question,

but on 24th June Buenos Aires was asked to make a special effort to obtain information about possible smuggling on specific ships, after which the Ministry proposed to ask the United States Navy to intercept as many as possible. But although this would have been of great assistance to the British controls the United States Navy never did in fact carry out any successful interception.

The United States officials continued however to recommend a more belligerent policy, while the Ministry continued to be held back by the Azores negotiations and the need to consider other aspects of economic warfare such as the wolfram campaign and pre-emption in the Peninsula. Too great an interference with Portuguese or Spanish shipping would have been highly inexpedient at this time. In support of their proposals the Americans sent a great deal of information, mainly derived from the voyage reports supplied by the Ministry to the United States embassy; nearly all of it was useless for practical purposes since it referred to past activities and gave no grounds for future action.

However, on 12th September 1943 the most successful interception of the war took place. The French cruiser *Montcalm* stopped the s.s. *Monte Albertia*, en route from South America to Spain, before it reached the Canary Islands, and brought it into Gibraltar. A thorough search was made and contraband consisting of platinum, liver extract, and gland extract was found, together with letters and documents destined for Germany. The smuggled goods were discovered when the authorities examined some duly navicerted goods—three cases of bacteriological peptone and ten cases of bile paste. The peptone cases contained peptone containers and also tins of powder, later analysed as pituitary gland extract. Inside the peptone containers were the documents and correspondence. The liver extract was found in the paste cases. The searchers also carefully pierced, top and bottom, every container in the cases. Ten of them were fitted with double bottoms containing heavy metal discs later analysed as platinum. These discs were three inches across, half an inch thick, and weighed approximately one pound. On the world market each platinum disc was worth a little more than \$500, but in the black market they were worth about \$4,000 each. On 15th September the Contraband Committee directed that these goods should be seized. It was pointed out, however, that this success was due to the fact that previous information had been received and acted upon; it was not the result of a random search.

By the end of October 1943 the possibility of increased interception seemed much greater, and plans were drawn up on the 27th at an interdepartmental meeting in London which included representatives of the Admiralty and Foreign Office. It was proposed to intercept each month three Spanish ships passing through the Straits of



Smuggled platinum from the *Monte Alberta*



Smuggled platinum from the *Monte Albertia*

Gibraltar as well as three ships sailing to Spanish Atlantic ports in the next two months and any others about which definite information was received. In addition it was agreed that two ships from the Atlantic Islands should be navicerted to Gibraltar and two others intercepted. With regard to ships from Africa the meeting agreed to a 'token' interception of one ship a month on each of the two runs, Africa to Mediterranean ports and Africa to Atlantic ports. Only a very limited number of Portuguese ships could be intercepted, and then only on condition that there should be no delay at control bases to which the Portuguese could object. Both these programmes were to be subject to the approval of the ambassadors in Madrid and Lisbon. A telegram was accordingly sent to the two embassies on 8th November outlining the proposals. A fairly satisfactory reply was received from Lisbon on 13th November. Sir Ronald Campbell appreciated the necessity for avoiding the appearance of discrimination against Spain, but hoped that in view of the inadequacy of Portuguese merchant tonnage and British assurances given under the Azores Agreement, interceptions would be reduced to a minimum and carried out if possible only when there was evidence that contraband was being carried. The reply from Madrid was most disappointing; in a long telegram on 21st November Sir Samuel Hoare objected strongly to the interception of anything more than one ship on the trans-Atlantic run in six weeks, arguing that random searches effected nothing and were not worth the irritation they caused. In view of this telegram M.E.W. agreed to modify the programme for the interception of Spanish ships to the following:

- (a) Ships from South America passing through the Straits to be searched at the rate of two a month (instead of three);
- (b) Two ships from South America sailing to Atlantic ports to be intercepted and searched in the next two months (instead of three);
- (c) One ship from the Islands to be intercepted and one to be sent to Gibraltar as the condition of a ship navicert (instead of two of each);
- (d) One interception per month of ships sailing from Africa to any Spanish port (instead of two);
- (e) One outgoing ship per month to be intercepted or sent to Gibraltar as a condition of the issue of a ship navicert.

The Ministry felt that anything less than this would not be worth carrying out. At the end of 1943 Mr. Dingle Foot visited Gibraltar and secured the embassy's agreement to this programme. The search of ships passing through the Straits was, however, reduced to one a month. Sir Samuel Hoare was also extremely reluctant to agree to the regular diversion of ships running between Spain and the Atlantic

Islands. This programme was to apply only to January 1944. Interceptions for February would depend on the results of the first month's searches.

The results of these searches fully justified the Ministry's insistence on increased interception. By 5th February 1944 five of the six ships had already been searched and in each case some irregularity had been found. The s.s. *Cobetas* was found to have no ship navicert; as a result of the interrogation of the crew of the s.s. *Mar Negro* the C.C.S.O. Gibraltar recommended the listing of two men; examination of mail from the s.s. *Ciudad de Sevilla* revealed 350 kilos of tannic acid for Schering of Madrid and parcels for Germany; hidden letters were found on the s.s. *Domine*, and on the s.s. *Monte Iciar* third-party mail was found. Sir Samuel Hoare was therefore informed that M.E.W. proposed to repeat the January programme in February. On 13th February, however, he replied that in view of the extremely delicate situation with the Spanish Government over the wolfram crisis,¹ he strongly recommended that no further ships from the Canary Islands should be navicerted to Gibraltar for some time. It was not until 7th March that he was persuaded to agree to the interception of one ship from the Canaries. Meanwhile Sir Ronald Campbell had agreed to the interception of a Portuguese ship from West Africa but unfortunately, although arrangements were made to intercept the *Angola*, she was missed by the patrols. In general, February was not so successful as January; three ships inward bound and one outward bound were searched and found in order, third-party mail was found on the *Ciudad de Valencia*, and the *Galdames*, inward bound to Bilbao, was missed by the patrols as well as the *Angola*. Sir Samuel Hoare also consistently opposed the interception of the Algeciras ferry. It was therefore reluctantly decided that neither the ferry nor an Island ship should be intercepted for the time being. However, in spite of the fact that no ship sailing from the Islands was intercepted for some months it became apparent in July 1944 that the Spanish authorities had discontinued the parcel post service between Spain and the Canaries, to the discomfiture of the Germans who had always boasted that these parcel facilities were a means of evading the British control. There was reason to believe that the suspension of this service was directly due to the interception of the Island trading vessels.

The anti-smuggling campaign led in August 1944 to the one instance in which a ship warrant was withdrawn from a neutral vessel as punishment for offences against the blockade. The ship was the Spanish s.s. *Rita Garcia*. For some time M.E.W. had been dissatisfied about the general conduct of affairs on board this ship and had kept a close watch on her. By July 1944 there was reliable evidence

¹ See pp. 599-607 below.

that during the past year the *Rita Garcia* had been concerned in the following undesirable activities:

- (a) The smuggling of a number of German stowaways (probably *Graf Spee* men) and, in May 1943, a very important German agent from Spain to Buenos Aires.
- (b) The smuggling in July 1943 of liver extract from Buenos Aires to Spain for ultimate enemy destination, and according to crew members on other occasions also.
- (c) The smuggling of W/T transmitters to Buenos Aires in September 1943.
- (d) The smuggling and letter carrying by practically all the crew, at times on German behalf.
- (e) Offences in connexion with the loading of surplus stores.

In addition, M.E.W. had been obliged to take action against two former masters of the ship of whose complicity in smuggling for the Germans there was no doubt. Five other members of the crew were known to be connected with smuggling. On her last two voyages from South America the *Rita Garcia* was thoroughly searched at Gibraltar. Although no actual contraband was found the search revealed numberless hiding places and it was thought likely that the contraband had been discharged at Las Palmas before the ship was intercepted. As a result of these and other incriminating facts M.E.W. asked the Ministry of War Transport on 4th July 1944 to withdraw the ship warrant. This was done in August and the ship was thenceforth confined to local coastal traffic.

By September 1944 the situation in Europe was such that there was no longer much fear that smuggled goods could be got through to Germany. The interception of inward-bound ships was therefore reduced from five to one a month, and attention was concentrated on the search of outward-bound ships and the prevention of the escape of war criminals and loot.

CHAPTER XV

GERMAN-JAPANESE BLOCKADE RUNNING

LORD SELBORNE'S insistence in March 1942 on the importance of blockade running¹ had been justified during the succeeding months by evidence that reached the Ministry from many sources. The expansion of Japanese steel production, which was the principal limitation on her armaments and ship-building industries, and the maintenance of Germany's fat ration, which was the weakest element in her food situation, both depended in part on this traffic. So too did Germany's chance of replenishing her meagre stocks of other goods, including rubber, wolfram, and tin. It had been impossible for operational reasons to do much to check this traffic in 1942, but the Allies were much more successful in meeting the danger in 1943 and 1944.² They were also taking an increasing toll of Germany's other blockade runners—the shipping that passed to and from Axis ports along the European coasts, either from northern Spain, or in the Aegean and Adriatic, or through Norwegian and Swedish waters. Most of this work fell on British Coastal Command and the Royal Navy, although later in the war United States warships took an active part against blockade runners in the South Atlantic.

Evidence which has come to light from German sources since the war confirms the Ministry's assumptions as to the importance of the oceanic blockade running. We can trace in fair detail the growth of German plans and hopes in Hitler's conferences with Raeder and Doenitz. After the closing of the Trans-Siberian route in June 1941 Hitler looked to blockade-running by surface vessels to make up the supplies of raw materials which had thereby been cut off from the Far East. When Hitler's intention to attack Russia became known the German naval authorities set to work to devise successful sailings, and by 17th September 1941 Raeder was able to say that he considered the outlook for blockade running to be satisfactory. By the end of June 1942 the rubber shortage had been relieved.³ During this period (April 1941–May 1942) practically all the blockade

¹ See p. 15 above.

² In M.E.W.'s view the measures which eventually brought blockade running to an end could have been taken at an earlier stage if its warnings had been heeded.

³ *Fuehrer Conferences, 1941*, p. 34, 17th September 1941 (*Brassey's Naval Annual*, p. 234); Speer (Hamburg) Documents, 23rd June 1942.

runners from Japan—12 out of 16—got through safely, with about 75 per cent. of their cargo. This included 33,000 tons each of raw rubber and edible fats.¹ The new and more intensive phase of blockade running started in September 1942 and ended in April 1943. The Allies were now beginning to interfere more effectively; three vessels were intercepted in November 1942, and when it began to appear that the goods lost in transit might be substantially more than those landed, the German programme had to be modified, while naval support was strengthened. On 8th January 1943 Hitler gave orders that the three remaining steam ships due to sail from Japan should carry exclusively wolfram, molybdenum, and rubber, for after the recent sinkings these commodities had become so short as to affect the course of the war. The transportation of fats—however important—must, he said, be put aside.²

There were prolonged discussions a month later (6th–8th February 1943), when Speer emphasized the urgent necessity for imports of rubber and wolfram from Japan, and Doenitz expounded his plans for countering the Allied controls. One possibility was that ships of the *Deutschland* class might be converted into blockade runners. There was also a discussion as to whether the aircraft carrier *Zeppelin* could be fitted for blockade running with additional tanks. It was decided that steps must be taken at once to improve the supply submarines by the production of trade U-boats (*Handels-U-Boote*) quickly enough to avert the otherwise threatening situation over rubber supplies.³ The matter was apparently discussed again on the 8th, when Doenitz gave a report on the situation of the blockade runners, and Hitler, after emphasizing the tremendous importance of getting especially those vessels through that were carrying cargoes of rubber, said that he had already ordered the Focke Wulf 200 to be transferred to do reconnaissance for the blockade runners.⁴

However, the Allied forces continued to take heavy toll.⁵ In the

¹ The first ship to accomplish a homeward voyage from Japan successfully was the *Ermland*, which reached Europe on 3rd April 1941. S. W. Roskill, *The War at Sea, 1939–1945* (H.M.S.O., 1956), ii, 182.

² Speer (Hamburg) Documents, 8th June 1943. The original German aim was to bring to Europe 440,000 tons of cargo between August 1942 to May 1943. The final programme aimed at only 210,000 tons. Roskill, ii, 273, 408.

³ Speer (Hamburg) Documents, 10th February 1943.

⁴ *Fuehrer Conferences, 1943*, p. 7, 13th February 1943 (*Brassey's Naval Annual*, p. 309).

⁵ The progressive improvement in British counter-measures after mid-1942 was due to a number of new expedients. One was the systematic photographic air-reconnaissance of the French ports. Another was the decision in September 1942 to use both submarines and aircraft to attack blockade runners. Successes were limited at first: 'errors in sighting reports, faulty wireless communication and inadequate training of aircrews in this specialised task were all found, by enquiry at Coastal Command Headquarters, to have contributed to our poor results' (Roskill, *op. cit.*, pp. 273–4). Better results, due mainly to good intelligence and reconnaissance by long-range aircraft, followed. Details in Roskill, *ibid.*, p. 410. Cf. p. 684 below.

six months ending June 1943, according to Allied information at the time, three merchant ships attempted to run the blockade from Europe to the Far East. Of these, one was intercepted and sunk and another forced to return. At least three other merchant vessels which were believed to have loaded had their voyages cancelled or postponed. Goods carried on these ships, only one of which seems to have reached its destination, included heavy plant, turbo-generators, machinery, special components, and chemicals. Five merchant ships and one tanker were known to have left the Far East during the same six months. Of these, four motor vessels and the tanker were intercepted and sunk. The fifth motor vessel reached the Biscay coast after being torpedoed and having lost part of her cargo. Three other merchant ships and one tanker which were reported to have been ready to leave the Far East in February or March were presumed to have had their voyages cancelled. It was estimated by the Ministry that during the twelve months which ended on 30th June 1943, 16,000 tons of rubber, 1,000 tons of tin, 10,000 tons of vegetable oils, 1,500 tons of tea, and possible 100 tons of tungsten were discharged at ports in Axis Europe. Losses were estimated at 29,000 tons of rubber, 20,000 tons of vegetable oils, 250 tons of tea, 40 tons of quinine extract, and at least 6,500 tons of tin, 200 tons of tungsten and 30 tons of quinine bark.¹

The Ministry did not anticipate much surface blockade running during the summer months, but it was fully realized that even though considerably reduced by these successful interceptions, the blockade running fleet was still sufficient to supply Germany's minimum requirements of rubber, tin, and wolfram and to make an important contribution to her fats position. In fact the lull which M.E.W. had expected was not broken until the end of December 1943, when in spite of many attempts to intercept her the *Osorno* reached the Gironde, and was beached at Le Verdon after being damaged. The cargo included some 5,000 tons of rubber. Soon after the arrival of the *Osorno* the inward-bound *Alsterufer* was sunk in the approaches to the Bay of Biscay by an aircraft of Coastal Command. When these two blockade runners arrived at the Bay of Biscay every available aircraft had been directed to the attack, even including some from the Coastal Command station in Northern Ireland.² Striking evidence of Germany's need for the cargoes carried by these vessels was the decision to despatch a large force of destroyers to

¹ These were conservative estimates. Roskill gives the following tonnage figures for cargoes from the Far East, August 1942–April 1943: edible oils and fats, delivered, 16,500; lost, 38,000. Rubber, delivered, 7,600; lost, 35,400. Ore, delivered, 1,900; lost, 11,200. Miscellaneous, delivered, 3,600; lost, 11,200. Of 15 blockade runners sailing to Europe only 4 arrived. All 6 ships sailing to Japan arrived however. Roskill, *ibid.*, ii, 408–11, and Appendix N for details of the Allied naval operations.

² Sir J. Slessor, *The Central Blue* (London, 1956), chap. 19, 'The Blockade of Germany' (pp. 539 ff.).

11° West in an endeavour to bring them in. Between 3rd January and 5th January 1944 United States Naval Forces in the South Atlantic sank the inward-bound *Weserland*, *Bergenland*, and *Rio Grande*, thus accounting for all the regular blockade runners known to have been in the Far East.¹ A preliminary estimate of Germany's profit and loss account during the period from April 1943 to January 1944 was as follows:

	<i>Received</i> Tons	<i>Lost</i> Tons
Rubber	4-5,000	14-16,000
Tungsten	—	Up to 1,000
Tin	Up to 3,000	9-12,000
Vegetable oils, quinine, resin, essences, etc.	Up to 1,200	Up to 4,000

Of the vessels which were known to have fitted out in Biscay ports in preparation for the journey to the Far East, some were already loaded by November, if not before. Three received severe damage from air attack, but at least three others appeared to have been ready and waiting for departure when the destroyer force put out to meet the *Osorno* and *Alsterufer*. It was later learnt that at least four such ships, which had been loaded in Biscay ports since the autumn of 1943, discharged their cargoes in the spring of 1944.

After the successful interception of the three inward-bound ships in the South Atlantic in January 1944 surface blockade running seems to have come to a complete standstill, but in the early summer of 1943 attempts were already being made to supplement the traffic by the use of submarines. A number of Italian submarines were specially converted and set aside for the purpose and the first was believed to have left the Biscay coast in May of that year. Only a limited amount of cargo could, however, be carried in this way and it was estimated that even if ten submarines were allocated to the traffic, which was considered doubtful in view of the importance which Germany attached at that time to the intensification of the U-boat warfare, the amount of cargo which could be carried in each direction in a year would be less than that which could be carried in one merchant-vessel blockade runner. Nevertheless, the goods, especially rubber, which Germany hoped to obtain by this means were becoming increasingly important as stocks diminished. It was known that in March 1943 Germany possessed no more than 30,000 tons of natural rubber, and that this position was considered to be grave. The capacity of the available synthetic rubber plants at Schkopau, Oswiecim, and Hüls, the latter of which had suffered severely from air attacks, was quite insufficient to meet the demand for synthetic rubber which would arise if natural rubber imports

¹ S. E. Morison, *The Atlantic Battle Won (History of United States Naval Operations in World War II)* (Oxford, 1956), x, 226-8.

were suspended. Japan was equally anxious to obtain in return such goods as mercury, ball-bearings, special steels, armament prototypes, etc. One large Japanese submarine arrived in a French port in August 1943, and was reported to be carrying rubber, but even if this was one of the largest of Japan's submarines, the amount carried probably did not exceed 70 tons.

Hitler had at first thought that the Italian submarines were of too limited a capacity to be worth using.¹ The surrender of Italy soon after prevented any large-scale development of blockade running by submarine. Eight submarines had finally been set aside for the purpose, but only six had sailed before September 1943. Of these, two were sunk, a third surrendered to the Allies, and three reached the Far East. It was known that the return cargoes were to consist of rubber, tungsten, quinine, opium, and tin, but with Italy out of the war either German or Japanese crews would have had to be found to man the submarines, and by the spring of 1944 (when the Ministry's information gave out) there had been no indication that any return voyages had been made.

The heavy losses at the end of 1943 necessitated a fundamental examination of the whole position by the German leaders. As early as April 1943 Doenitz had said that to keep open the routes through the Bay of Biscay was only possible by the exertion of every effort. Most of the commercial traffic with North Spain was unescorted. Even so, only a small force was available for escorting blockade runners; recently destroyers had had to be used for this purpose. This in turn had weakened the forces in northern waters, and for the protection of the Norwegian coast.² A critical discussion took place between Hitler and a small group on 18th January 1944. The key to the position was the high hopes that were attached to the new type of transport submarine, Type XX, which would not be in effective operation until October 1945. Doenitz presented a memorandum dated 14th January which argued the case for the sending out of more surface blockade runners. It said that there was no need to use them in order to import tin from East Asia: in this case the discrepancy between total requirements and German home production combined with imports from Europe could be met until October 1945 from existing stockpiles and from imports by combat and transport submarines. The wolfram situation at the moment was also such that there was no need to use surface blockade runners: this, however, remained true only as long as imports from Spain and Portugal remained at their existing level. The position as regards

¹ At the Fuehrer Conference (1943, p. 14: Brassey, p. 312) with Doenitz on 26th February 1943 Hitler is recorded as saying that as so little was to be gained by using Italian Atlantic submarines as supply ships he had decided not to ask for them (5th March 1943).

² *Ibid.*, p. 35, 21st April 1943 (meeting on 11th April), attached memorandum.

natural rubber was that if the *Osorno* came into port and if submarines continued to bring in the expected small quantities, the amount of natural rubber available for admixture with buna and for other essential purposes would be about 250 tons a month until the transport submarines began to be effective in October 1945. An annex to the report gave the following table.

Survey of Raw Materials

1			1	2	3	
2	Raw material		Natural Rubber	Tin	Tungsten	
3	Yearly requirements	tons per year	3,000	7,000	1,920*	
4	Quantities obtained per year	German sources		3,960	430	
5		Imports from Europe	tons per year	600	1,320	
6		TOTAL	tons per year		4,500	1,750
7	Deficit per year		tons per year	3,000	2,440	170
8	Stocks in hand at beginning of 1944		tons	4,700	6,700	190
9	Deficit expected in October 1945		tons	5,500	4,500	315
10	Imports from Far East required until October 1945		tons	800	-	125
11	Imports from Far East expected until October 1945		tons	800-1,000	1,000-1,500	150-180

* If tungsten concentrates are made the basis of calculation these figures should be approximately doubled.

On the face of it this looked as if Germany could hold out until the improved transport submarines were ready to beat the blockade in the autumn of 1945. But Doenitz pointed out the gloomy side of the picture. It was, he argued, absolutely essential to import considerably greater amounts of rubber than these arrangements allowed, for the following reasons: (1) 250 tons a month would suffice only with a lowering of the quality of tyres, etc. (2) The loss of buna plants and of factories producing rubber goods could be remedied only by the increased use of natural rubber, for there were insufficient stockpiles

of finished goods; there was no possibility of substitution in the rubber industry; and the reduction of the output of synthetic rubber would put a greater strain on the factor of repair, for which natural rubber was almost exclusively needed. Hitler added to the gloom by observing that there was imminent danger that wolfram imports from Spain and Portugal might cease, and he had therefore given orders to bring in as much wolfram as possible at once. Nevertheless, when Doenitz went on to argue that it was necessary to send four surface blockade runners to Japan in the next full-moon phase beginning on 22nd January 1944, Hitler rejected the plan. He said that he no longer considered the need for rubber decisive enough to the war effort to justify the enterprise (which presumably meant that existing supplies would suffice for the immediate tasks), and (the essential point) he thought that the plan had no chance of success: the ships would never reach Japan.¹

This, then, was the virtual end of German-Japanese blockade running, although a trickle of goods continued to arrive by submarine. Early in 1944 German submarines operating in the Indian Ocean carried small consignments of goods on both their outward and homeward voyages, and another large Japanese submarine arrived in Bordeaux in April with a cargo which included rubber. Since the Japanese had now, in the Ministry's view, more to gain than the Germans by the maintenance of this traffic it was thought possible that an occasional submarine might get through to one of the west French ports while they remained in enemy hands, but with the Allied re-occupation of Europe even this small leak was finally stopped.

After the defeat of Germany two German U-boats with cargoes from the Far East and two with cargoes for Japan were amongst those which gave themselves up in British ports under the surrender terms. Their cargoes were:

U.532. 110 tons of tin (in the keel), 8 tons of wolfram, 8 tons of rubber, 4 tons of molybdenum, about $\frac{1}{2}$ ton of quinine and 100 kilos of crystals and selenium.

U.861. 52 $\frac{1}{2}$ tons of wolfram, 55 $\frac{1}{2}$ tons of tin, 36 tons of rubber, and 140 lbs. of iodine crystals.

In the two boats bound for Japan were:

U.874. 50 tons of mercury and 30 tons of optical glass in blocks and zinc.

U.875. 30 tons of mercury, 30 tons of lead, and 30 tons of optical glass.

¹ *Fuehrer Conferences, 1944*, p. 4, 18th January 1944, and annex 2. This gave 11,000 tons monthly as the existing capacity of the buna factories. A further factory, at Auschwitz (Silesia) would add another 3,000 tons a month (*Brassey's Naval Annual*, p. 381).

Thus blockade running remained a problem to the last; but the period of serious menace was from September 1942 to April 1943. In spite of further enemy attempts in the winter of 1943 the traffic virtually ended with the successful destruction of the three inward-bound blockade runners in January 1944.

CHAPTER XVI

SWEDEN

(i)

Lionel and Dicto

IT was, however, in Europe, in pressure on the five neutrals, that the Allied blockade authorities looked for their principal rewards. All five made reluctant and circumscribed reductions of their aid to Germany, but they did so with a deliberation which was trying indeed to the high hopes of the Allied Governments. Germany still had potent means of unpleasantness. Each of the five behaved with the caution and sense of dignity of neutrals who did not wish either to back the loser or fawn on the winner, or to see their flourishing but precariously-balanced wartime economies overthrown in the death spasms of the defeated.

Sweden was the first to face the more self-confident Allied demands which accompanied the continuing military successes of 1943. Switzerland was still too isolated to offer the same hope of concessions, and operations in the Mediterranean made it inexpedient to press Turkey or the Iberian powers too strongly during at any rate the first half of 1943. Even to Sweden, however, the dangers of any substantial defiance of Germany still seemed very real. Allied discussions with her tended to concentrate on two points: was Sweden consistent in her standards of neutrality? and was she voluntarily giving Germany more economic help than was necessary at this stage of the war? While some Americans suspected that the Ministry of Economic Warfare was acquiescing too readily in neutral trade with Germany, the Ministry, well aware of the interdepartmental differences on the point in Washington, believed that the Americans tended to exaggerate the degree of pressure that the Allies could effectively exert. The Swedes argued that they had kept a fair balance between the belligerents after the fall of France, when British prospects were gloomy, but they did not by any means reject the Allied contention that they had made many concessions to the Germans and should now begin to reverse the process. They suspected, however, that the Allied Governments were exaggerating both the importance of iron-ore exports (in view of the German control of the Lorraine field) and the importance of the Gothenburg traffic, which at best supplied only a trickle of Swedish imports (some 15 per cent.).

Nevertheless they were anxious to reach agreement with America and Britain, on the basis of a revised war-trade agreement which would regulate, perhaps for the rest of the war, Sweden's position towards all the belligerents. The very stiff trade talks with Germany for the conclusion of an agreement abolishing every kind of credit is evidence that the Swedish Government was genuinely willing to offer the Allies a *quid pro quo*. M. Boheman seems to have believed that a basis for agreement with America and Britain had been achieved in his discussions in London and Washington in the autumn of 1942.¹

But as it happened both governments were in a mood to press the Swedes much harder than M. Boheman appears to have realized. We saw in Chapter VI that some of the American proposals for bringing pressure on the Swedish Government had already met with protests from the Swedish representatives, and that the British, while not agreeing with all the American plans, were themselves annoyed by some Swedish activities. The Ministry accepted, with some reservations, the twelve-point programme to which the Board of Economic Warfare had agreed on 12th November 1942, but before negotiations for a new war-trade agreement could begin on this basis it had a more urgent issue of its own to settle with the Swedes. This was the problem of the *Lionel* and *Dicto*, which strained everyone's nerves during December 1942 and January 1943.

The British Government wished to get these two ships away from Swedish waters by the end of December, and to use the oil negotiations for this purpose. The story lies outside the field of economic warfare except in so far as it formed part of the general bargaining which preceded the war-trade agreement, and it can, therefore, be only summarized here.² As the result of a message from Mr. Churchill, which led to a special directive from President Roosevelt, the State Department told M. Boheman on 20th November that the increased oil quota would be granted immediately if he would let the two ships go, agree to the chartering of 21 'free' Swedish vessels, and promise to assist the Allied plans generally. He would be assured of further essential supplies on a basis to be agreed on in subsequent discussions. One tanker, the *Sveadrott*, could sail at once. M. Boheman replied that he had explained in London that it was absolutely impossible to release the two ships: the Germans would at once bring the Gothenburg traffic to an end. When it heard of the reply

¹ See pp. 197-9 above.

² See pp. 192-8 above for earlier developments. The cargoes consisted of ball-bearings, heavy machinery for their manufacture, special steel, special machine-tools and gauges and spare parts for Swedish machinery (including marine engines) already in service in England. It was believed that operational factors—such as the need for long nights and freedom from ice—would probably not be favourable for the sailing of the ships after the end of December. Steckzén, *op. cit.*, pp. 574-6.

the Foreign Office told the State Department that it had certainly not been clear that the Swedish Government had come to a final decision not to let the ships go,¹ and it was by no means convinced by M. Boheman's views about German intentions. On 25th November it proposed that the *Sveadrott* and one other tanker should be allowed to sail immediately, but that if thereafter the Swedes committed the admittedly illegal act of refusing clearance to the *Lionel* and *Dicto* when German ships were allowed to sail regularly from Swedish ports, the British and American Governments would reply by stopping the Gothenburg traffic. The Swedes were to be made to realize that while the Germans might stop the Gothenburg traffic if the *Lionel* and *Dicto* were allowed to sail, the Allies would certainly stop it if they were not given every chance of getting the two ships successfully away. This is one case in which the British were prepared to be tougher than the Americans in pressure on the neutrals; the State Department was evidently uneasy and by no means convinced that the war situation had moved sufficiently in favour of the Allies for these tactics to succeed.

However, after securing fresh instructions from the President, the Department told M. Boheman on 1st December that the oil quota of 30,000 tons was granted, and that Sweden could take delivery during December of the cargoes of two tankers, *Sveadrott* and *Saturnus*, against the quota for the first quarter of 1943. He was also told that he should return to Sweden immediately and that the United States, as well as the British Government, reserved all rights about the two Norwegian ships. But he was not told what would happen if clearance for the two ships was refused. The State Department thought that the final demand and the announcement of possible sanctions should be deferred until the two tankers were safely in Swedish waters. It was deemed desirable for Sweden in any case to have the oil; if conditions were imposed she might be compelled to refuse it, and this in turn would lessen her willingness to resist German pressure and to meet the other Allied demands. The objection to this programme was the delay involved; by the time the second tanker had been loaded and had reached Gothenburg it might be too late for the two Norwegian ships to sail, and therefore too late to play the trump card, suspension of the Gothenburg traffic. The British view still was that the Swedes had strong cards if they chose to play them and had an excellent chance of standing up successfully to the Germans on this issue. The State Department had, however, its own difficulties: it had pushed through permission for Sweden to have the oil against strong opposition from other sections of the Administration, and if the only result were to be that the tankers fell into German hands, its ability to help the

¹ Cf. M. Boheman's views: Hägglöf *op. cit.*, p. 225.

United Kingdom over similar questions in the future would be impaired.

It was finally agreed that the British demands should be presented shortly after M. Boheman's return, and before the tankers arrived; but that if the Swedes proved accommodating the British Government should agree to postpone the sailing of the two Norwegian ships until both tankers had reached home. Then, as the Swedish Cabinet would disperse for the Christmas holidays shortly before Christmas until after the New Year, it was decided, with American concurrence, that the British 'ultimatum' must be presented on 21st December. After the Swedish Foreign Minister had explained that the two ships could not be released, Mr. Mallet gave him an *aide-mémoire* explaining that unless the Swedish Government were prepared to allow their departure in accordance with international law during the course of the next fortnight the British and United States Governments would be compelled to withhold in future all licences for exports of goods destined for Sweden. In the course of the discussions it was revealed that the Swedish Foreign Minister had given some assurance to the Germans that they would be informed if the two ships were allowed to sail; how far this had been given spontaneously, and how far it was a result of German threats of retaliation, was not clear, but it seemed to the Foreign Office an unneutral and unfriendly act, a 'compact with the Germans to deny us our legal right of clearance for the time being'. During the next fortnight the Swedish authorities seemed unwilling to contemplate any solution incompatible with their earlier attitude. The chartering of a neutral ship to take away the cargoes of the *Lionel* and *Dicto* was suggested, but in fact no suitable neutral ship could be found. It seems that the Swedish Government may have been genuinely surprised at the British insistence, and that powerful influences in Sweden were working actively on Britain's behalf, moved by a genuine abhorrence of a quarrel. In Gothenburg, with its traditional British sympathies, there was strong criticism of the Swedish Government's handling of the case. The United States *chargé d'affaires* in Stockholm reported at this time that certain elements of the Social Democratic Party were bringing pressure to bear on the Government to take a firmer attitude towards Germany, particularly in the matter of troop transits.

On 8th January 1943 the Secretary-General told Mr. Mallet privately that the chances of getting the *Dicto* and *Lionel* were 'very favourable', and on 11th January he said that he was authorized by the Swedish Government to state that the two ships would be free to sail as from 15th January (the *Sveadrott* was expected in Gothenburg on the 14th) subject to satisfactory assurances on the following four points:

1. If in consequence of the departure of the *Lionel* and *Dicto* from Gothenburg, the Gothenburg traffic should be discontinued by German action, Swedish ships which are employed in the Gothenburg traffic and at the time of the cessation of the traffic are outside the Skagerrak blockade will remain at the disposal of the Swedish Government, to be used if and when the traffic is resumed.
2. The oil quota allotted to Sweden will be considered a yearly quota of 120,000 tons instead of quarterly quotas of 30,000. The oil cargoes of T/S *Saturnus* and T/S *Sveadrott* to be considered part of the oil quota for 1942.
3. M. Boheman's declaration, embodied in the memorandum of 14th October, to be considered a satisfactory basis for further discussions between the Swedish and British and United States Governments, with a view to fixing basic rations for Swedish imports. Swedish desiderata as to rations to be given favourable and liberal consideration.
4. There will be no objection to the replacement of ships lost in the Gothenburg traffic, in cases where the Swedish Government deem such replacement necessary, by ships outside the Skagerrak blockade.

There was indignation in the Foreign Office at this proposal. 'What they are now prepared to do is to give us our rights in regard to clearance, of which they have been wrongfully depriving us for some weeks past to our serious detriment' said a telegram to Washington on 12th January. 'This gives them no right to bargain.' The British legation in Stockholm regarded this attitude as unrealistic.¹ The State Department had already told its representative in Stockholm that while it could not agree to any 'conditions' on Sweden's part for allowing the two ships to depart, it was ready to consider 'requests', and Mr. Mallet was instructed to associate himself with the United States reply, although with various conditions and reservations. He had, however, as it happened, already asked M. Boheman to receive him and the United States minister on the afternoon of 14th January. He asked under (1) that if the eventuality arose the Swedes would consult the Ministry of Transport; said that under (2) the decision was left to the American Government; followed exactly the American answer to point (3), and accepted the Swedish

¹ On 13th January a representative of the Ministry, who was in Stockholm, telegraphed an emphatic personal remonstrance to two of his colleagues. 'I have never felt more deeply disappointed . . . Immediate and unqualified agreement to Swedish conditions so far as we are concerned could not by any stretch of imagination really damage our interests . . . There is just a bare chance that Washington, who seem to understand position better than London, may come to our rescue . . .' He was told in reply on 14th January, 'Every one in Foreign Office and other Departments concerned . . . was shocked by Swedish attitude and determined not to [yield to] what they regarded as blackmail. Discussion with Riefler and other Americans showed that they, without any prompting from us, felt exactly the same . . .'

demand under (4). An *aide-mémoire* dated 15th January then set out the United States reply to the four 'requests' as follows:

1. Assurances were given to Mr. Söderblom on 10th January, later confirmed by *aide-mémoire* dated 11th January, which it is assumed satisfactorily dispel the Swedish Government's apprehensions on this point.
2. The method and time of shipment of the quantity of oil allotted to Sweden are matters which the American Government considers should be taken up for friendly discussion concurrently with the forthcoming negotiations in London. It is the intention of the American Government in those discussions to take into full account Swedish military needs and shipping problems.
3. The United States Government had already assured the Swedish Government that if the Norwegian ship question is satisfactorily concluded the American Government has every hope that the negotiations in London can proceed to a satisfactory agreement. In the conversation with Mr. Söderblom on 10th January it was also made clear that the forthcoming negotiations do not involve any matters which might occasion a threat to close the Göteborg traffic, nor does the American Government plan the introduction of further demands on Sweden which have not already been discussed with M. Boheman either in London or in Washington.
4. In the discussions with Mr. Boheman in Washington on the question of charter to the United States of free Swedish ships in the Western Hemisphere, the American Government made it clear to M. Boheman that eight such ships would be returned to the Swedish Government for use in the Göteborg traffic should they become necessary for the traffic.¹

These four points, and particularly the third, are important in the context of the general negotiation for a revised war-trade agreement; they removed the last hesitation of the Swedish Government with regard to the departure of the two ships, although again in circumstances which annoyed the Foreign Office, for on the morning of the 15th M. Boheman made a last-minute effort to secure some sweetening of the pill with regard to point 2. But this was refused and an hour later Mallet and Villiers were told that the Swedish Cabinet had decided that immediate clearance was to be given for the two ships.²

Unfortunately the Swedish Government had already disclosed to the Germans on 14th January the fact that the clearance was to be granted; the Germans promptly (on the 18th) suspended the

¹ These four replies are taken from the copy of the U.S. *aide-mémoire* of 15th January, sent to the Foreign Office in a despatch of 19th January.

² On the understanding that they would not leave Gothenburg before Sunday morning, 17th January, by which time the *Sveadrott* was expected to be in Swedish territorial waters.

Gothenburg traffic as a reprisal and made naval dispositions which rendered an immediate breakout by the *Lionel* and *Dicto* too hazardous. This and the comparatively warm weather prevailing on the west coast decided the British authorities to postpone the operation as long as possible in the hope that German vigilance would relax. Moreover, the Swedish naval authorities were insisting that the two ships must not anchor or 'hover at will' off the Swedish coast during daylight hours; this was also considered to be 'most unsatisfactory' and likely to jeopardize the success of the operation. As it happened German vigilance was not relaxed, and on 7th March Mr. Mallet was told that the lengthening hours of daylight had made it necessary to abandon the project until the next autumn; an attempt would be made to remove the essential parts of the cargoes by other means. The Germans agreed to the reopening of the safe-conduct Gothenburg traffic on 7th May 1943.¹

One of the incidental consequences of this unsatisfactory affair was the recognition by the Swedish Government of the stronger bargaining position of the Allied powers. M. Boheman continued to express surprise that the two ships had not left immediately in view of the extreme urgency which had been one of the main British arguments throughout the negotiations. There was some reason to believe that the Swedish Government (or perhaps M. Boheman, who was inclined to take a pessimistic view of things) regarded the Anglo-American attitude as due, not so much to the cargoes, as to a determination to make this a test of Sweden's general attitude, in anticipation of future military action in the area. This, however, was not the case; the cargoes were ends in themselves.² Mr. Mallet believed that the Swedish Government had eventually yielded to the Allied ultimatum because it did not wish at this stage of the war to involve itself in serious friction with the United Nations. The Foreign Office, however, took a rather less charitable view; it believed that the Swedes were trying to have the best of both worlds, and had nullified an apparent concession to the United Nations by premature

¹ The Swedish minister in London told F.O. on 3rd May 1943 that Germany had agreed to the reopening of the traffic in return for assurance that the two ships would not leave Gothenburg before autumn. F.O. replied on 5th May that H.M.G. saw no objection to an assurance that the ships would not be moved from *Swedish waters* before 1st October, provided that the Swedish Government undertook (1) not to consider itself under an obligation to furnish the German Government with information regarding applications for clearances of the ships, or regarding their movements after 1st October, and (2) not to refuse clearance at any time after 1st October. The F.O. believed that the arrangement would improve the Allies' bargaining position since the Swedes would presumably be anxious to reach an agreement quickly in order to secure the maximum imports before 1st October.

² The Swedish Prime Minister told Mr. Mallet on 3rd February 1943 that he was longing to hear that the two ships had left, and longing even more to hear of their safe arrival, 'to which we then drank a private toast'. He said that he now understood the importance of the cargoes to the British war effort.

disclosure.¹ Washington certainly seems to have been more sanguine than London at this stage as to the possibility of success in the forthcoming war-trade negotiations.

(ii)

The War-Trade Agreement

Discussions between London and Washington as to a joint programme for the war-trade negotiations with Sweden continued from January to April 1943. The two governments did not find it easy to agree on certain points, and the Swedes, some of whom had believed that a basis for understanding had already been reached in the autumn of 1942, were at first puzzled and then uneasy at the delay. The *Lionel-Dicto* episode showed that the Allies were planning further pressure, and this was confirmed when, in January, American and British experts, with Mr. Cass Canfield taking the leading part, visited Sweden. Their emphatic requests resulted in their obtaining in March various statistics which had hitherto not been available,² and made it evident that some rather far-reaching demands were being prepared both with regard to Swedish trade with Germany and also regarding semi-political matters such as the transit traffic, the rights of foreign aeroplanes in Sweden, and the like.

The twelve American proposals of 12th November 1942,³ which had not yet of course been communicated to the Swedes, coincided fairly closely with a list of objectives drawn up by the Ministry.

¹ Comments in various telegrams show that the Foreign Office saw 'a most unpleasant resemblance' between the Swedish decisions and those of the previous March, which in the British Government's opinion had contributed materially to the loss of a number of ships and cargoes (cf. p. 192). M. Boheman argued on 25th January that the fact that the German Government had been informed of the impending departure of the two ships had not affected German preparations materially; they had already become aware early in January, from preparations on board that could be seen from shore, that an early attempt to depart was being prepared; they were in the habit of asking at frequent intervals about the Swedish Government's intentions about the ships; the Swedish Government could not lie. A later argument was that the Germans would in any case have known that the Swedish Government had decided to release the ships from the moment when they left the inner harbour of Gothenburg on 17th January to swing their compasses. The British comment on these arguments was that if the Swedes had been ready to give clearance whenever it was wanted, the ships could have sailed at any convenient moment from November 1942 onwards; the Germans at that time would not have been able without serious difficulty to mobilize the destroyer patrols which were the real obstacle to a successful break-out; the Swedish Government informed the Germans on 14th January that they were going to grant clearance and thus gave them three days to make their naval dispositions before the two ships were free to sail; permission to swing the compasses had been requested before Christmas (1942) and 'this was unjustifiably refused'.

² Mrs. Boothroyd was the Ministry's representative. She was sceptical about a Swedish claim that 500 clerks had been specially engaged for about 3 months in order to compile the required monthly export figures.

³ See p. 204 above.

Both agreed that, as proposed under (a) of the American text, Sweden must be constrained to get back to 'normal 1938 ceilings'. More specifically the British plan provided for the restriction of the flow of commodities to the enemy by imposing low ceilings on machinery and bearings; the general establishment of ceilings to cut down excessive exports to the enemy; provision for referring all barter deals, as well as processing deals, to the J.S.C.; an inverted procedure for certain quotas; and the forbidding of the export of arms, ammunition, and means of transport (with the possible exception of vessels of a certain type covered in an existing Swedish-German agreement). With regard to (b), (c), (d), and (h) of the American proposals the Ministry felt that as Sweden was known to be ready to increase the flow of strategic materials by air to the United Nations and as the provision of extra sea transport at this time was impracticable, or its discussion inopportune in view of difficulties over the Norwegian ships, it would be as well not to raise these points at this time. The American recommendation (l) was covered by a similar British proposal to establish a relation of 1.5 to 1 between Swedish exports of iron ore and Swedish imports of coal and coke. There were, however, substantial differences between the views of the two governments on Swedish-Argentine trade (g) and on transit traffic (i), (j), and (k).

The United States authorities continued to show much annoyance at the Swedish-Argentine trade. In December 1942 they proposed to send a note to Sweden, as part of the general economic-warfare operations, proposing that exports to Argentina and Chile should in future be restricted to newsprint, wood pulp, and rayon pulp, such exports to be allowed only to consignees approved by the United States authorities. The Ministry's reply was that there was no reason why the Americans should not approach the Swedish Government on these lines, but that it did not wish to encourage them to do so, and in view of the Carlsson-Mounsey agreement was unwilling to be openly associated with it. The American note was duly presented in the middle of January 1943 with the explanation that it was due to a desire to bring about equality in respect of Swedish exports among South American republics.

The Ministry continued to feel that the stopping of Swedish iron and steel exports was a rather unhappy way of bringing pressure on Argentina. Other Swedish exports to Argentina were to be permitted, so that the matter was one of expediency rather than of principle, and no blockade advantage would be served by the stoppage; indeed, labour and material would be released in Sweden which might be used in work for Germany. The Ministry regarded Argentina as a less undesirable importer of Swedish goods than the Axis countries which would be the only alternatives. The British

Ministry of Food, while welcoming any measures which might reduce Argentine sales to Governments other than the U.K. or U.S.A., was opposed to any policy which might lead Argentina to retaliate by restricting supplies of essential foodstuffs to Great Britain.¹ It remained the conviction in London that the Americans were over-estimating the strength of the Allied position in Sweden, and that it would be a mistake to make trouble about Swedish-Argentine trade when the Allies had so many other demands to press there. Enquiries in March 1943 of the British representatives in Brazil, Chile, Uruguay, Peru, and Mexico showed that there was little or no knowledge of or interest in the matters in the states concerned. Sir Noel Charles replied from Rio that he believed local resentment in Brazil to be non-existent, and that such *démarches* as had been made by the Brazilian Government had been half-hearted and due directly to the instigation of his United States colleague. The Ministry would have preferred to exclude the question of Swedish-Argentine trade altogether from the war-trade negotiations, or at the most to give it a low priority among the Allied demands. By this stage the Board of Economic Warfare and many officials in the State Department seem to have come to much the same opinion as the Ministry, but the Latin American Division of the Department tenaciously opposed the giving of a low priority to the matter in advance, and at last, in April, it was included in the programme without any such reservation.

The other point in the American programme about which the Ministry had some doubts (on tactical grounds) was that of transit traffic. M. Boheman had been unable to promise any concessions in the previous autumn and for the time being the British authorities had dropped the point. The agreement of 14th January 1943 not to press for concessions beyond those already discussed also raised some doubts as to how extensive demands about the transit traffic should be, and the American recommendations went rather further than what seemed attainable to the Ministry. The War Office took the view in March that the transit traffic was of no great danger to the Allies at the moment; it thought the traffic in materials of greater importance than the transit of troops. But as it happened opinion and press in Sweden were coming more and more to condemn the German privileges of transit, and by the end of March the British and United States ministers were able to report that the Swedish Government intended shortly to stop the leave transits of troops and probably the transit of munitions of war, though not what they called the ordinary commercial transits. As Germany would retaliate by again stopping the Gothenburg traffic it hoped to 'get a few more tankers of oil and supply ships into Gothenburg

¹ Sir David Kelly, *The Ruling Few* (London, 1952), pp. 287-95.

before closing the transits',¹ and it also wished to appear before the world as having chosen its own time rather than to appear to the Germans and to its own public as having been forced to act under Allied pressure in the course of commercial negotiations. This placed the State Department in something of a dilemma. It did not wish to offend Swedish susceptibilities, but it also feared that so specific a departure from the 'November resolution' would arouse opposition, particularly from the U.S. War Department. In the end, therefore, transit traffic was mentioned among the Allied objectives, although it was hoped that it would form the subject of a private understanding, and ostensibly of voluntary action, by the Swedish Government.

While these lengthy discussions and preparations were proceeding between London and Washington the C.R.M.B. and C.M.B. were still discussing the figures for basic rations, and as these were to form the Allied *quid pro quo* for the concessions demanded of Sweden, negotiations could not begin until the list was complete. The long delay in completing the examination of the British list sent to Washington in August 1942 kept alive fears that the U.S. War Department might delay the discussions indefinitely, but at last, much to the Ministry's relief, C.R.M.B. and C.M.B. agreed on 9th April upon the form to be adopted. Meanwhile, in February, the Blockade Committee had decided to make no changes in the quota schedule for Sweden for the second quarter of 1943, and as arrangements for actual supplies to Sweden had to be made pending the coming into force of the new ration schedules it was decided that interim supplies should be allowed, although at a figure considerably below the proposed basic ration figures. It was accordingly agreed in March to renew authorizations for shipments to Sweden which had expired owing to the suspension of the Gothenburg traffic, reconsidering applications in cases in which there had been any change of circumstances.

In view of the evidence of mounting Allied demands the Swedish Government was divided as to the instructions for the London negotiations that it should give to its delegation (consisting of MM. Gunnar Hägglöf, chairman, Marc. Wallenberg, and Gunnar Carlsson).² The negotiations began on 10th May with a preliminary meeting in the Ambassadors' Waiting Room at the Foreign Office, followed by lunch at the Savoy. In an opening speech Lord Selborne gave a somewhat detailed indication of the Allied attitude, leaving no doubt that the Allies were relying on their control of supplies as their chief bargaining weapon. The supply needs of the Allies and

¹ The Gothenburg traffic was still closed as a result of the *Lionel and Dicto* episode. The Swedish Government wished, therefore, to get in some supplies after the reopening of the traffic and before it was again closed by the Germans as a retaliatory measure.

² Hägglöf, *op. cit.*, pp. 250-7.

the neutrals had now to be considered together, and the former were ready to put forward certain basic quotas and 'if agreement is reached to do their utmost to see that these were always available to Sweden', although it was 'quite impossible to give a hard and fast guarantee in every case'. In return, they expected a considerable further limitation of the assistance that Sweden was giving to the Axis. The need for Swedish trade with Germany was recognized, but the war situation had changed enormously in the last year; the sympathies of the Swedish people were known to be overwhelmingly with the United Nations, but 'there is sometimes a feeling in this country that we get all the sympathy while the Germans get all the goods'. He asked them to 'pay regard to the duties of neutrality as well as to the rights'. Mr. Winant referred very briefly to the general aim of the war, and the Allies' determination that 'peace under liberty shall endure'; he too felt that the time had come for Sweden to implement her sympathy for free peoples by reducing aid to the Axis powers. He did not promise supplies.

The negotiations then continued in London until the signing of a draft agreement on 19th June, after which there was a period of uncertainty as to whether the Swedish Government would accept it. A memorandum circulated on 11th May by Mr. Cass Canfield, the chief American expert, recognized the Swedish difficulties, and suggests that the American negotiators had lost something of the high confidence of economic-warfare enthusiasts in Washington a year earlier. Even so they do not seem quite to have understood the Swedish dilemma. From the outset the Swedish delegates had found that the Allied demands went much further than their Government had wished to believe. During conversations at the Foreign Office between Sir Orme Sargent, Mr. Riefler, and M. Hägglöf, the Allies asked for a complete cessation of the transit traffic and a revision of the rules applying to foreign aircraft. In negotiations at the Ministry of Economic Warfare (Mr. Dingle Foot, Mr. Riefler and Mr. Canfield, M. Hägglöf and M. Marc. Wallenberg) the Swedes were presented with demands for a reduction of exports even in 1943, that is, while the Swedish-German agreement for 1943 was still in force. In Stockholm M. Boheman spoke pessimistically of the prospects, pointing out that a drastic reduction of exports would have a disastrous effect on Swedish economy, for it would lead not only to a cutting down of German deliveries, but also presumably to the closing of the Gothenburg traffic, so that Sweden would get no benefit from the basic rations that the Allies were offering. M. Günther, the Minister for Foreign Affairs, also spoke pessimistically on 19th May. On 10th June M. Boheman argued that the war might last another eighteen months, and it would be a bad gamble for Sweden to tie her hands with regard to her 1944 trade.

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The situation was a difficult one for the Swedish delegation.¹ After the shock of the opening Anglo-American demands the normal course would have been to return to Stockholm for instructions, but this, in view of the difficulties of transport, would have meant a delay of some months. The delegation tried in vain to obtain new instructions by telegram, and finally decided to proceed with the negotiations according to their own judgment, while keeping Stockholm informed as to their progress. To the British delegates prospects of success in the negotiations seemed to advance and recede as frequently as the tide. The Swedes had their own demands, and these were varied and numerous, ranging from an application to conclude with Germany a 'profitable exchange of blood and non-edible waste' to a request to purchase in the United Kingdom over 100 different pharmaceutical products. The chief Swedish anxiety throughout was the need for supplies, and the doubt as to whether they would lose more by defying the Allies than by defying the Germans. M. Boheman argued that it mattered little to Sweden if the negotiations broke down; he was not afraid of the political reaction against Sweden in Great Britain and the United States, for by following her own line she would in fact satisfy about 80 per cent. of their desiderata, and she would, by following her own timetable, be able to avoid a serious crisis with Germany involving something like a trade war. But as the negotiations advanced the Swedish delegates became 'reasonable' and by 7th June had accepted *ad referendum* many of the Allied proposals, including the limitation of Swedish exports to Europe to a maximum of 860 million kronor in 1943 and 700 million in 1944, the abolition of further credits for enemy and enemy-occupied countries except Finland, limitation of the export of iron ore and of other ores in 1944, tightened control of processing, abolition of List B and extension of List A of the war-trade agreement, and drastic limitation of the export of arms, ammunition, ships, trawlers, and other means of transport.

There were, however, still three outstanding problems at this point, the most important being the reduction of iron-ore shipments to Germany in 1943. The Swedes maintained that they had tied their hands in their current trade agreement with Germany and that they could not make a reduction—however much they desired to do so—unless the Germans on their side made a corresponding reduction in the German exports that would pay for the iron-ore shipments. Although this argument seemed convincing, the Allied negotiators were not satisfied that if the Swedes were absolutely determined to effect a reduction they could not find some means or other of doing so without breaking openly their trade agreement with Germany.

¹ Hägglöf, *op. cit.*, pp. 260-1.

The export of certain other commodities produced less important but none the less tiresome discussions. Here, too, the position seemed satisfactory with regard to 1944, when exports of interest to the United Nations would be cut by 30 per cent., or more; but for 1943 they had been unable in most cases to secure anything more than a limitation of exports to specific existing commitments. No effective limitation at all had been secured in some of the non-precious metal groups.

The third problem, and the one that seemed to arouse the greatest measure of Swedish resistance, was that of certain trawlers that were being built for the Germans. The British legation in Stockholm received news in October 1942 that 46 vessels of 150-ton trawler type were being built for the Germans in small boat yards in Sweden by a Swedish firm which apparently had a guarantee of about six million kronor. The German firm which placed the order was Hugo Stinnes of Mühlheim, and the drawings were supplied by Maierform of Bremen. From these drawings it appeared that the vessels were nothing more than 80 ft. trawlers,¹ but closer scrutiny seemed to show that the fish-holds were likely to be fitted to accommodate a crew of four men in addition to normal accommodation, and that steel bulwarks from the quarters of each vessel were made to hinge and could be completely removed, so that a flush deck would continue aft. The British naval attaché in Stockholm was convinced that the Germans would use them for mine-sweeping. The legation at first argued that in any circumstances the supply of these trawlers was contrary to the war-trade agreement, since it was not 'normal trade': in 1938 Sweden had exported to territory that was now German-controlled only one fishing vessel (motor propelled) of 22 gross tons, value 3,000 kronor. To this the Swedes replied that exports of tonnage must be taken as a whole, and that on this basis the transaction was well within the limits of normal trade. The British might also have an argument under international law, which recognized that it was improper for a neutral government to allow its nationals to build and fit out warships to the order of a belligerent.² The Swedish authorities continued, however, to deny that

¹ According to particulars given to the British legation by M. Boheman on 6th March 1943 the principal dimensions of the vessels were: length 20.5 metres, breadth 6.25 metres, and moulded depth 3 metres.

² The appropriate rule of international law is that a neutral armaments or shipbuilding firm is entitled to sell to a belligerent a vessel of war built by it as long as the vessel has not been specially built to the order of the belligerent. The distinction has, however, little substance in modern warfare, for warships are seldom built as a speculation but almost always on order. The Ministry's legal adviser was satisfied that if the trawlers were warships the fact that the order was placed by a private German firm would not prevent their being to the order of a belligerent. To come under the rule the vessel would, however, have to be, in part at any rate, built for war purposes and not merely used for such purposes by the enemy after handing over. Alternatively the constructors would have to be shown to be aware of the use to which the enemy intended to put the vessels. The special constructional features reported by the British naval attaché as being unnecessary to

there was evidence that the vessels were to be used for anything but their ostensible purpose; M. Günther even made a statement to this effect in the Second Chamber of the Riksdag on 10th March 1943. No progress was made during the next six months. During the discussions in May and June 1943, the Swedish negotiators, at the instance of the British Admiralty, agreed to urge their Government to allow a British expert to make a full inspection of the trawlers, and it was also suggested that the Germans should be asked for an assurance that the ships would not be used as minesweepers, although no one believed that any value could be attached to such assurances. The British remained strongly convinced that in this matter Sweden was giving direct assistance to the German naval war effort; they thought that they were fully entitled to demand that the Swedes should, by administrative delays, prevent any of the vessels from being delivered until well on to 1944, if indeed they were delivered at all.

By 13th June the British and Americans had come to the conclusion that it was useless to continue pressing for anything more specific regarding Swedish iron ore exports in 1943, and they had reached a compromise agreement with the Swedes over specific rubrics. The trawler problem was, however, still unsolved: the Swedish Government's reply to the proposal for British inspection and German assurances was that all the papers and plans had now been shown to the British naval attaché. To the British the Swedish attitude seemed difficult to understand; they were realists, and must see that it could not be to their advantage to send these ships to Germany. In Stockholm on the other hand the Swedes showed great irritation at the British Government's attitude, arguing that it grossly exaggerated the value of a small order; that any fishing boats could admittedly be used for other purposes but that there was no proof that these ships could *not* be used for fishing; and that to cancel the export licence already issued for the trawlers would be the kind of provocation that might easily lead to the closure by the Germans at this point of the safe-conduct traffic. In the end no agreement could be reached, and the point was left open. The text of the remaining decisions was agreed on 19th June, but by this point the Swedish Government had become so impatient that the delegation was recalled, and at once left for home. As it happened, section 11(i) of the agreement prohibited 'the export of arms and ammunition, ships and other means of transport' and had been accepted by the Swedish delegates *ad referendum*. The Ministry assumed that as soon as the

trawlers but apt for employment as minesweepers appeared to bring the case within the 'Washington Rule' arising out of the famous Alabama decision, namely that 'A Neutral Government is bound . . . to use due diligence . . . to prevent the departure from its jurisdiction of any vessel intended to cruise or carry on war . . . such vessel having been specially adapted in whole or in part, within such jurisdiction, to warlike use'.

Swedish Government understood the significance of this clause it would reject it, in which case the Allies would have to give way over the trawlers.

There followed a somewhat uneasy period of about three months during which the Swedish Government appeared to be in no hurry to sign. When the British and United States Governments announced on 9th July their own willingness to do so the Swedes replied that they intended to honour all the principles of the undertaking but were unable to sign any undertaking until such time as the transit question was settled with Germany. Otherwise there was silence, and much uneasy speculation in London and Washington in consequence. Were the Swedes delaying ratification with the intention of departing from their side of the bargain if the Germans closed the Gothenburg traffic and the Allies could no longer send in supplies? The State Department was uneasy because it had secured agreement to the offer of basic rations only on the promise of a good *quid pro quo*. In this state of uncertainty the two Governments were hesitating to grant export licences and navicerts. However, it gradually became evident that the Swedish authorities were acting as if the agreement were already in force, and the Allies came to the conclusion that all would be well, and that the essential cause of the delay really was the transit question.

This view was more or less the right one. We are now able to fill in the details¹ and it appears that after hearing M. Hägglöf's report the Swedish Government made two decisions: first, to abolish the transit traffic by a unilateral decision in the course of the summer, and secondly not to accept the draft of the war-trade agreement as it had been elaborated in London. This would not have precluded further negotiations for modification of the agreement, but the first reaction of the Government was that it was impossible to reduce the Swedish exports to Germany in 1943 without breaking the German-Swedish agreement. With this view, however, M. Hägglöf, who had negotiated the German as well as the new London agreement, disagreed. It was also argued, especially by M. Günther, that the London draft would limit and even make impossible Swedish economic aid to Finland, which he looked on as an inducement to Finland to make peace with Russia. If the Swedish Foreign Office had acted immediately on the Government's decision therefore the London draft would have been rejected. It was evident, however, that some members of the Cabinet were not at all happy at this prospect, and the officials of the Foreign Office accordingly decided to delay action; discussion within the Government continued during July, opinions gradually changed, and at last, in August, the

¹ Hägglöf, *op. cit.*, pp. 263-8, gives a full and interesting account of the ensuing Cabinet discussions.

Government decided that the London draft should be accepted.¹ On 28th July the Swedish shipowners accepted terms for the chartering of nine Swedish ships not previously under charter to either the Ministry of War Transport or the United States War Shipping Administration. Mr. Mallet reported the extreme distress of Swedish officials at the suggestion that they would back out after the Allies had fulfilled their side of the bargain. The war-trade agreement was, in fact, formally initialled on 23rd September 1943 with certain amendments, including the reluctant agreement of the Allies to the export of the trawlers.²

The agreement in general can rightly be regarded as a triumph for the economic-warfare policy of the Allies; it was the first substantial success in the diplomatic offensive which had been made possible by the Russian and African victories. It was a correspondingly courageous action on the part of the Swedes. It imposed considerable restrictions on Swedish trade with Germany and German-occupied satellite countries in return for a conditional guarantee of supplies ('basic rations') and an increase to six ships a month in the sailing to and from Gothenburg to enable these supplies to be carried. The basic rations were authorized on the understanding that certain Swedish ships outside the blockade area would be chartered to the United States War Shipping Administration. A list of the basic rations showing the quantities and sources of supply was given in Annex 1 of the British Government's declaration.

The restrictions on Swedish trade with the enemy, which had in fact come into effect on 30th June, fell into two categories: first, overall restrictions which limited the total value of Swedish exports to the enemy, and secondly, a variety of specific restrictions which would ensure that the enemy would not be in a position to concentrate the limited purchasing power which remained in Sweden on high-priority commodities of which he was, or might become, in urgent need. It was estimated that the overall restriction of Swedish exports from 30th June 1943 to the end of 1944 would bring about a reduction of approximately 30 per cent. by value as compared with the average rate of Swedish exports to the enemy during 1942. But the actual reduction in physical exports would be larger, perhaps over 40 per cent., owing to the fact that the average level of Swedish export prices had risen considerably as compared with that of 1942.

The restrictions on Swedish trade with the enemy, set forth in the Swedish declaration, may be summarized as follows:

¹ Hägglöf, *op. cit.*, pp. 268-71.

² From December 1943 onwards the Ministry received information from a number of sources that the 'fishing boats' were being used by the Germans as warships, sometimes as escort vessels in convoys on the stretch Stavanger-Bergen, and later as gun mounts for anti-aircraft defences in key German harbours. A report to this effect also appeared in the *Ny Dag* of 30th March 1944.

SWEDISH DECLARATION

23rd September 1943: Summary

1. The Swedish Government agreed to reduce exports in 1943 to all countries associated with or occupied by Germany by not less than 130 million kronor, as compared with 1942. This was to include a reduction of approximately 20 million kronor in the case of Finland; approximately 40 million kronor in the case of both Italy and Denmark; and approximately 14 million kronor in the case of Belgium and the Netherlands taken together.
2. The Swedish Government agreed that no new credits and no extensions of credits already granted would be given to any Axis country, and also that the repayment of existing credits would be required as they fell due. As a result Germany would receive no credits from Sweden during 1943, and at the same time would be under an obligation to repay credits amounting to 41·6 million kronor during 1943, and 73·4 million kronor in 1944. In the case of Finland, which the Swedish Government refused to consider an Axis country, new credits were to be held strictly within defined limits which would have the effect of greatly restricting Swedish-Finnish trade.
3. The price relationship of Swedish exports to the enemy and Swedish imports from the enemy was to be maintained unchanged. No increase in the average price level of imports from the enemy would be allowed without a corresponding increase in the price of Swedish exports.
4. From 1st January 1944 the following prohibitions were to come into force:

Swedish exports to the enemy during 1944 were not to exceed 700 million kronor, i.e. about 30 per cent. less than in 1942. Provision was made against an excessive proportion of exports in the early part of the year.

Iron ore exports, etc., were to be limited to 7·5 million tons in a proportion of not more than two tons of ore to one ton of coal and coke imported from the enemy. It was believed that this linking of enemy coal with Swedish iron ore would not only retard and reduce exports of ore but would also impose a considerable burden on enemy labour and transport.

The export of all ore except iron ore, zinc ore, and pyrites was prohibited. Exports of zinc ore and pyrites were limited by clause VI B of the Swedish declaration.

The export of all ferro-alloys except ferro-silicon, the export of which was subject to limitations, was prohibited.

The export of groups of various commodities was limited to 75 per cent. of the 1942 exports. These groups included chemicals, wood and wood products, wood pulp and paper, non-precious metals, machinery, and instruments.

Limits were also imposed on the export of about 40 specific

groups of other commodities including special steels, ball-bearings, machine tools, and chemical pulp, all of which were of great value to the enemy.

5. When granting licences for export to neutrals the Swedish authorities agreed to attach a condition that the goods must not be re-exported or used in the manufacture of goods for export.
6. The export of arms, ammunition, ships, or other means of transport was prohibited, except for certain cargo ships in process of being built for the enemy, for which the enemy had to deliver ships' plates, certain fishing vessels and certain outstanding contracts with Finland.
7. The repair of enemy ships not sailing to or from Swedish ports, or not salvaged by Swedish vessels, was prohibited. This prohibition extended to vehicles and other means of transport used by the enemy.
8. No increase in the number of Swedish ships trading between Sweden and the enemy was permitted, nor any replacement of ships sunk or damaged while engaged in such trade.
9. The list, contained in the original Anglo-Swedish war-trade agreement, of Swedish commodities whose export was prohibited not only remained in force but was considerably increased.
10. The agreement provided for a corresponding reduction in the ceiling of exports to the enemy in the event of any country now occupied by, or associated with, Germany recovering her liberty of action.

A special clause dealt with Swedish-Argentine trade. Sweden agreed that until such time as she could export freely to all countries in Latin America on an equal basis, she would limit exports to Argentina to certain commodities including paper, wood pulp for paper-making, and rayon pulp to such consignees as were approved by Britain and the United States. If the Argentine authorities took retaliatory action in the matter of their exports to Sweden the Allies agreed to do their best to make the commodities involved available elsewhere or to reconsider the situation. Another clause made arrangements for checking all shipments of petroleum products arriving in Sweden through the Anglo-American blockade. A further clause provided for equal representation of the United States with Britain and Sweden on the Joint Standing Commission. A commission of similar composition and duties to that of London was to be set up in Washington. The agreement concluded with an exchange of letters dealing with a variety of specific arrangements; in one of these the Swedish Government undertook to supply full official trade figures, in the form of monthly statistics of exports and imports, to be furnished within six weeks of the expiration of any given month. Sweden also agreed to give an analysis of the balance

of payments with the enemy within two months of the expiration of each calendar year; special mention was made of statistics for petroleum, railway trucks, and engines. The most important of these for the subsequent discussions was, however, what came to be known as the 'two point letter' addressed by M. Hägglöf to Messrs. Foot and Riefler. This affirmed the following two points on which verbal agreement had been reached in the previous June:

1. The Swedish Government will do their utmost to prevent the acceptance of further orders for delivery to Germany in 1943 of items covered by the rubrics falling within the machinery and non-precious metal groups listed in the annex hereto, which would (a) increase the already existing excess over German purchases in 1942; or (b) bring the value of German purchases of any individual item in 1943 above that of similar German purchases in 1942.
2. It is clearly in Swedish interests to maintain the present excess of German railway trucks in Swedish territory over Swedish railway trucks in Germany and in territories occupied by and associated with Germany, and the Swedish Government will prolong the present position as long as possible. Only in isolated emergency cases will the Swedish Government allow any increase in the number of Swedish locomotives at present operating in Norway and in no case will Swedish locomotives be sent to Germany.

The items in the annex were charcoal pig-iron, tool steel (carbon steel), high-speed steel, stainless steel, other forged tool steel, ball-bearings, roller-bearings, balls and rollers, steam boilers, etc., condensers, internal combustion engines, machine tools weighing 10 tons or less each, machine tools weighing 10–20 tons each, tractors, engines and locomobiles, water turbines, instruments for navigation, and ball- and roller-bearing machinery (including ball and ball-race grinders).

The British Government had every reason to be satisfied with the agreement; as Mr. Foot remarked to M. Gisle on 28th September, Sweden had gone further to meet Allied wishes 'than any other neutral country so far', and the conclusion was that the Swedish Government would move towards further accommodation as circumstances warranted, and would respond to persuasion. The United States authorities, although not always in agreement among themselves as to the best tactics to employ, tended to favour more forceful methods, on the assumption that these had already proved their worth. As a result, the agreement was followed rather quickly by fresh Allied demands which did not always express Allied agreement on tactics.

For the Swedes, on the other hand, Nazi Germany was still an

alarming neighbour, and the agreement had been intended as a more or less final settlement of relations with the Allies, for the duration of the war. The Swedish negotiators felt that they had gone to the furthest possible limit to please the Allies by reducing exports to, and consequently imports from, Germany; as Sweden's economy was so largely dependent on German coal and other supplies a complete severance of relations with her—except for a short period—was out of the question. We have seen that they were far ahead of the Swedish Government in these concessions, and their calculations were based on the assumption that the war might not last for more than about another year, and that Sweden's stocks with the reduced imports would just be sufficient to enable her to hold out until the autumn of 1944. Among other things M. Hägglöf had accepted on his own responsibility the Allied demands for a sharp reduction in ball-bearing exports. He had secured his Government's acceptance of the draft agreement partly on his assurance that he would be able to secure an agreement with Germany in spite of the reductions, partly on the ground that the American negotiators had assured him that the ball-bearing question would and could never be raised again after the conclusion of the 1943 agreement. German agreement was in fact secured. But for the rest things turned out very differently from what had been expected. On the one hand the Swedish calculations were thrown out by the fact that the war went on much longer than had been anticipated; on the other, the Allies soon began to demand much more drastic restrictions of Swedish exports, particularly of ball-bearings, than had been anticipated.¹

All this created some feeling of bitterness among the Swedish officials, who had been engaged during the last months of 1943 in adjusting their relations with Germany in the light of the London agreement. Soon after the opening of the Gothenburg traffic in May 1943 they had begun to press the Allies urgently for supplies, and by November it could be said that they had received substantially what they had asked for in the case of hides, wool and wooldtops, cotton, linseed, coffee, beans, rice, pork, casings, oilcake, oils and fats, and borax. On the other hand shipments of wheat (owing to their bulk), dried fruits (for supply reasons), cotton yarn, piece goods, oleic acid (for making super-phosphates), red lead, and medical Vaseline were each in some measure disappointing. On 29th October the Germans discontinued the safe conduct of ships in the Gothenburg traffic, and let it be known that the reopening of the traffic would depend on the results of the Swedish-German trade negotiations.

During November it became increasingly evident that the Swedish Government would be unable to limit iron ore exports for 1943 to

¹ B. Steckzén, *Svenska Kullagerfabrikens Historia*, p. 569.

'normal trade' figures; an Anglo-American memorandum called Swedish attention to this possibility, asked for an 'urgent assurance' that exports for the year would not exceed 9.9 million tons, and demanded that 'during the first quarter of 1944 the Swedish Government will not permit iron ore exports in any one month to exceed 200,000 tons, nor to exceed a total of 488,000 tons for the first quarter of the year'. After some weeks delay M. Boheman promised to deduct from the quota for 1944 the excess amount for 1943, which he placed, however, at only 86,000 tons; he added assurances that the Allies need have no apprehensions about 1944. The new Swedish-German agreement, he said, laid down definite ceilings for iron ore, ball-bearings, and other commodities in accordance with the London agreement, whereas in 1943 the Swedish Government could reduce its exports only by resorting to 'all kinds of subterfuges'.

The Swedish account of the negotiations with Germany certainly bore out M. Boheman's assurance. In these negotiations, which ran from 8th November 1943 to 10th January 1944,¹ the Swedes insisted that the reopening of the Gothenburg traffic should be a *sine qua non* of an agreement. After prolonged discussion the Germans had to accept the Swedish limitations of export quotas in accordance with the Anglo-American agreement and they reduced their own export quotas in retaliation. It thus resulted that the Swedish payments to Germany in 1944 were to total about 700,000,000 kronor, of which 450,000,000 (as against 550,000,000 in 1943) would be made up of export quotas for different commodities, and the balance would consist of invisible exports and a credit repayment of some 80,000,000 kronor. Swedish iron ore exports to Germany were reduced to 7 million tons as against 10 million tons in 1943, leaving a balance of 500,000 tons for export to Finland and other countries; the export of ball-bearings was reduced from 45 million to 21 million kronor;² the export of ferro-silicon was agreed at 4.5 million kronor (as compared with 5.3 million kronor in the Anglo-American agreement); and zinc ore was fixed at 50,000-55,000 tons (as against 68,000 tons). Other items were to be limited in accordance with the terms of the London agreement. The buna agreement was to remain in force, but the Swedes stated that it would be cancelled if German deliveries did not reach the stated amount in 1944. In communicating these details to the Joint Standing Committee the Swedes naturally pointed to their own sacrifices. The Germans had reduced their export quotas for coal, coke, iron, and steel; coal imports into Sweden were thus reduced from 5 to 3.9 million tons, and this was

¹ Hägglöf, *op. cit.*, chap. XV. A memorandum describing the negotiations and the agreement was presented to the British and American delegates at the meeting of the Joint Standing Commission in Stockholm on 14th January 1944.

² Cf. Steckzén, p. 569.

expected to prove very detrimental to Swedish industry and especially the gasworks. There were also important reductions in toluol, synthetic tanning materials, and electrodes.

But by this point the United States War and Navy Departments had launched a renewed onslaught on the policy of supplying the European neutrals; on the strength of some evidence of infringements of the London agreement the Swedish oil ration of 120,000 tons a year had become a main target. The Ministry, while admitting 'some cause for dissatisfaction', telegraphed to Washington on 19th January 1944 deploring the proposed pressure: the cutting off of the basic rations would inevitably result in increased Swedish exports to the Axis. Nevertheless, after a week of stormy interdepartmental debate (echoes of which reached the British embassy), the State Department decided to proceed with plans for a joint protest, although the proposal to open the discussions by suspending basic rations was dropped. It appeared that F.E.A. itself was divided, but had finally drafted a letter to Mr. Hull calling for a violent protest and a suspension of imports. The State Department had at first been strongly opposed; but service pressure continued, and F.E.A., although retreating somewhat, maintained the demand for some immediate steps. The proposal to the British Government for a joint note of protest was thus a compromise; a draft note reached the Ministry on 29th January, and by 6th February the British embassy was satisfied that the administrative storm in Washington had rolled on, leaving a comparative calm in which the matter might be considered more objectively.¹

The points in question would have been more suitable for discussion in the Joint Standing Commission, or by protest through the normal channels. M. Boheman on 22nd January professed to be puzzled as to how to draft a satisfactory answer; he decided to send M. Hägglöf to London at once, to find out how best to phrase an official reply. On 24th February he went through the Swedish declaration clause by clause and with his usual tact and clarity showed the Joint Standing Commission how carefully Sweden had observed the terms! All this no doubt reduced even further the Ministry's liking for the joint note.² It sent a revised version to Washington which disappointed the State Department and F.E.A. on account of its mild and friendly tone, although in view of what Washington considered the urgency of the matter no amendments were suggested on this score alone. Modifications were needed, however, because of some recent developments and newer evidence,

¹ In his memoirs (*op. cit.*, ii, 1346-7), Hull states that, 'Stimson's and Knox's departments' opposed the sending of oil to Sweden so violently that he had to take the question to the President, who decided in favour of the State Department.

² Hägglöf, *op. cit.*, pp. 292-4.

including figures for heavy exports of ball-bearings during the last five months of 1943.

What were the Allied complaints? They certainly do not seem, in retrospect, to be sufficiently weighty to justify the heavy bombardment of a formal diplomatic protest. The two main American grievances were the iron ore question and the transit traffic. The Swedes had admitted the excess of exports in 1943 over 'normal trade', but had disputed the Allied figures, and the Ministry believed that to raise the latter issue would merely produce a pointless debate. It preferred therefore to concentrate on securing the proposed ceiling of 488,000 tons for the first quarter of 1944, and the Americans accepted this procedure.¹ The transit question arose from the Swedish undertaking in 1943 to discontinue military transit traffic by the Swedish-German ferries; the British Government, being anxious to prevent the vacuum thus created from being filled by non-military traffic, had secured a Swedish promise to limit the latter to 120,000 tons a year. But it was then discovered that there was extensive traffic through ports such as Sundsvall on the Gulf of Bothnia. The Ministry thought that the Swedes had 'withheld information which candid people would have disclosed', but the fact remained that the reduction of the transit traffic had been made unilaterally by the Swedish Government, it was not a part of the London agreement, and no one had mentioned the Sundsvall trade during the London discussions.

There were also complaints of infringements of the war-trade agreement, including the export of 125 tons of producer-gas units between 1st July and 30th September 1943; export of 17 tons of automobile parts, 57 tons of bicycle parts, and almost 60 tons of railway wheel tyres, between 1st July and 30th October 1943; two tons of brake apparatus to Norway, and 73 tons of freight cars to Finland in October; but although these were undoubtedly breaches of the agreement they were evidently due to outstanding commitments incurred before the agreement had come informally into

¹ The Swedish Government based its estimate of a normal (i.e. 1938) trade on instructions to the Joint Standing Commission which defined 'Germany' as including the territory of the German Reich, any territory for the time being under German occupation or control, and the territory of any country which might be allied to Germany and at war with the United Kingdom. This was taken in Sweden to mean that the territory conquered by Germany since 1939 could be included in the estimates; with Belgium, Holland, Hungary, and France this brought the figure for normal trade to 10,739,966 metric tons, according to Swedish official trade statistics for 1938. Exports of iron ore to these areas in 1943 were 10,241,691 metric tons, so that they were, the Swedes claimed, actually 498,373 tons *below* normal trade! However, M. Boheman was willing to recognize that in the London discussions in 1943 iron ore export to '1939 Germany'—including the German Reich, Czechoslovakia, Poland, and Danzig—had generally been defined as 10,000,000 tons, and they were, therefore, prepared to transfer to the 1944 quota the excess quantity of iron ore exported in 1943, namely 86,000 tons. The Ministry had never accepted this basis of calculating normal trade, and had consistently maintained its own figure of 9,900,000 tons, but it knew that to raise the matter would mean that 'the argument starts at once and gives the Swedes an excellent let-out'.

force on 1st July 1943, and may have been genuinely overlooked by the Swedish experts. The Americans also called attention to grain exports to Finland of 9,330 tons in 1943, although rye, wheat, and oatmeal were on the prohibited list. The Ministry had records of a Swedish arrangement in March 1943 to send 4,000 tons of hardy wheat to Finland in return for 4,000 tons of ordinary wheat—a transaction condoned by the subsequent economic agreement; an arrangement in April 1943 to send 6,000 tons of groats, approved by the Ministry after reference to the Joint Standing Commission; and the sending to Finland of 1,000 tons of grain in exchange for certain water-logged grains which had been landed in Sweden from a shipwrecked vessel. The Americans said that they had had explanations with regard to only the last of these transactions. (They were, as the Ministry noted, ‘more spectators than collaborators at that time’.) The Americans also made a strong complaint that, in spite of the pledge in the ‘two-point’ letter, exports to Germany of high-speed steel and ball-bearings were higher in the latter months of 1943 than in 1942. The Ministry did not dispute the American figures, but felt that as the Swedes had merely promised to use their best efforts to slow down these exports it was bad tactics to complain until it was known what ‘best efforts’ (if any) had been made.

The joint *aide-mémoire* was handed to the Swedish Ministry of Foreign Affairs on 17th March. It made the best case it could on the outstanding points, and on the iron ore question insisted that ‘normal trade’ meant 9,900,000 tons; so that the excess for 1943 was, in round figures, 357,000 tons. Moreover the two governments had asked for a limitation to 488,000 tons for the first quarter of 1944, and were ‘deeply disturbed’ to find that exports approximated to 450,000 tons for January alone, and they requested the Swedish Government to assure them that it would limit iron ore exports to Germany to 2,583,000 tons for the first half of 1944.¹ It also referred to the continuing grant through a clearing deficit of a substantial credit to Denmark.

The modification that the Ministry had made in the original American draft had not lessened its conviction that the procedure of formal protest was tactically absurd, and it was in no way surprised at M. Boheman’s dignified and effective answer to the British and American ministers on 6th April. It is not necessary to examine this in detail. He said that as the Anglo-American *aide-mémoire* had tried to construct a juridical case the Swedish Government must reply in the same formal manner, but in spite of this it would do all it could to meet the Allies’ wishes. The Swedish memorandum reminded the two powers of the many concessions to their interests

¹ This figure was arrived at by deducting the excess exports for 1943 from the figure representing the average of the five years from 1938 to 1942.

in the London agreement of 1943, and said that they had been unable to show that the Swedish Government had broken any pledge of any importance whatsoever in the Swedish Declaration. In its monthly report for April the Ministry's comment on the negotiations was that both sides could clearly 'continue a profitless argument till the crack of doom and it is greatly to be hoped that we shall hear no more of this unfortunate protest'.

The Americans showed their annoyance with an oil restriction. The Swedes had asked for 4,000 tons of 100 octane for the air services between Sweden, Great Britain, and Russia, for their supplies were dangerously low. The British supported this request. During the next two or three months British Mosquitoes, which needed 100 octane, would be the sole means of communication with Sweden. They could not take enough fuel for the return journey and carry freight and passengers as well. Many British Government departments and the U.S. Service authorities would be affected if Sweden were entirely cut off except by telegraph. However, Mr. Patterson, the Under Secretary for War, intervened, and the Swedish tanker that was to take the 100 octane had to sail without it. The Ministry thought that this was 'short-sighted folly'. It was a prelude to the battle over ball-bearings, which tested everyone's nerves for the next few months.

(iii)

Kugellagerdaemmerung

The enforced relaxation of the Allied efforts in the ball-bearing campaign after the Schweinfurt raid of October 1943 had enabled Speer, by drastic efforts, to save the German ball-bearing industry by dispersal during the following months, so that by the spring of 1944 the point had probably been passed when the ball-bearing campaign could deal Germany a mortal blow.¹ To the Allies, however, the existing damage to the industry was taken as a reason for pressing on with progressively greater limitations. The Ministry believed that at the end of 1943 enemy output of ball-bearings was at about 70 per cent. of the pre-raid rate, and that output had fallen to 45 per cent. in April and May 1944 following the intensified offensive on all the major producing factories in Germany, Austria, Italy, and France in the early months of the year. These figures were broadly correct. In the circumstances there seemed every reason to hamper the Germans still further by cutting down foreign supplies as much as

¹ See p. 416 above.

possible, particularly as the Germans seemed to be making strenuous efforts to increase imports from Sweden.

In the London agreement Sweden had agreed to limit deliveries to the Axis of ball- and roller-bearings, balls and rollers, to 29 million kronor during 1944. This compared with a total delivery of 51 million kronor in 1942 and 60 million in 1943. It was further provided that there should be no reduction in prices. During the latter half of 1943 the Germans were known to have made frantic efforts to induce the Swedes to agree to higher deliveries: in August they offered the latest type of Daimler-Benz aero-engines, in December, heavy A.A. guns or any other armaments that the Swedes desired. These offers were refused. In the summer of 1943, in addition to existing orders with S.K.F. for the United Kingdom's own supply needs, the British spent £1,000,000 in pre-empting special types of bearings which were used in aircraft production. Although this purchase was not thought to have upset previous German orders for these types it was believed that it had helped to prevent a substantial increase in German orders following the Schweinfurt and other raids. There was some confusion over the figures in the Swedish-German agreement of January 1944. The Joint Standing Commission was told on 10th January that the Swedish export quota for 'ball-bearings' was 'limited to 14.5 million RM, or about 21 million kronor'. The text of the agreement shows, however, 18 million RM,¹ or about 26 million kronor, and the Ministry received secret information in March that the latter was the true figure. M. Hägglöf, in a letter to Mr. Dingle Foot of 27th March, gave the export quota to Germany as 24,361,000 kronor, and the Ministry proceeded on the assumption that with agreements for small deliveries to other Axis countries the total amount of the Swedish commitments for 1944 was a little over 26 million kronor.²

It was agreed in Washington and London that this was a very unsatisfactory situation. Early in March the Chiefs of Staff Committee pointed out to the Ministry that in view of the large reduction in home production Germany's imports of ball-bearings from Sweden would form at least as large a proportion of her total supply in 1944 as previously. A report from American sources showed that in January 1944 Germany drew from Sweden almost the whole of her monthly quota of ball-bearings in the form of 'special' small and medium size bearings suitable for use in airframes and aero engines,

¹ The specific clause is as follows: '1(j) *Kugel- und Rollenlager und Teile sowie Zubehör*: Der Gesamtbetrag von 18 Millionen RM wird sich mit 14,500,000 RM auf Kugel- und Rollenlager und Teile und mit 3,500,000 RM auf Genäuse, Achsbüchsen usw. verteilen.'

² The Swedish Secretary of the J.S.C. explained in April that the figure of 21,000,000 instead of 24,000,000 had been given in error at the meeting on 10th January 1944, and the error had been repeated in the minutes as a result of the failure of M. Hägglöf's staff to check his rough notes.

and it appeared that she had thus been able to satisfy some 70 per cent. of her total requirements of seven important types of airframe bearings, or about 25 per cent. of her overall requirements of airframe bearings, by means of purchases from Sweden. The Committee doubted whether anything more could be achieved by diplomacy and pre-emption and called therefore on 'all possible methods of stopping or reducing the leak', without being able to suggest what more could be done. Lord Selborne agreed with the facts, and ruled out sabotage as impracticable and undesirable; he could only point to recent Swedish requests for the delivery of 300 Spitfires as a possible bait.

Early in March the Ministry received three assurances from the Swedish Government: (a) that the Ministry would be given early and regular information about exports of bearings to Germany; (b) that German orders would be executed in such a way that deliveries in any one month would not amount to more than about one-twelfth of the total German quota; and (c) that variations in German orders once placed would not be allowed. An offer of Spitfires in return for a substantial reduction of ball-bearing deliveries during the following four months was then made,¹ but was rejected by the Swedish Government at the end of March (after a fortnight's deliberation) on the ground that it would involve a breach of the Swedish-German agreement. The Ministry believed that the next step should be an approach to the company, backed by some very substantial offers.² M. Hägglöf had remarked to Mr. Dingle Foot on 31st March that although the Swedish undertaking in the Swedish-German agreement went further than a mere promise to grant export licences it did not amount to an absolute guarantee that the Swedish Government would compel the company to deliver the full quota. Messages from the British legation in Stockholm went further, and were emphatic in assuring the Ministry that a business arrangement with the company was possible, and that there was reason to believe that the Swedish Government would accept it. The Ministry and the United States embassy in London, after discussing the problem with M. Hägglöf, agreed to recommend to their Governments that the company should be asked to stop deliveries to the Axis completely during the following three months, and to make no deliveries at all during 1945; in return the Allies would place substantial orders immediately and during 1945, with somewhat smaller orders for smaller results. This would have meant that the

¹ The Air Staff was prepared to give the Swedes up to 200 Spitfires for a substantial postponement of deliveries.

² In an M.E.W. departmental minute of 19th April 1944, the following comment appears: 'The R.A.F. nourish strong feelings on the subject of Swedish ball-bearings but they are mild compared with the acute fever from which the Americans have suffered ever since their second daylight raid on Schweinfurt . . .'

outstanding deliveries for 1944 would be made in the last few months of this year. Russia might be asked to exercise simultaneous pressure and the company warned that the Allies expected to exercise control over German imports in the post-armistice period. All pre-emption of Swedish ball-bearings had hitherto been carried out at the expense of the British Government. The American military authorities in London now supported an urgent application to Washington for funds for the purpose up to 20 million dollars.

The State Department, however, believed that the company was uncooperative, and that results could be achieved only by the direct intervention of the Swedish Government, supported by a threat of blacklisting. The Ministry would have liked to reject this procedure flatly; it was convinced that it would merely irritate the Swedish Government to follow the Swedish memorandum of 6th April with any such threatening *démarche*. But as the plan had received the approval of the Service Chiefs in Washington and of the President himself, the Ministry agreed—rather too readily perhaps—when the State Department modified its programme to the extent of substituting for the blacklisting threat the statement that ‘serious consideration will be given to all measures at the disposal of the American Government’. An *aide-mémoire* on these lines was presented to M. Günther on 13th April by the United States minister, Mr. Herschel Johnson. The British minister presented a brief *aide-mémoire* in support.

The American document demanded for the following three months a complete cessation of all exports of ball- and roller-bearings, and of machinery and special steels and tools for their manufacture and for that of piston rings.¹ The repeated references to the slaughter of American youth led to its being known in some quarters as the infanticide note. It was recognized that the new demand was beyond the scope of the war-trade agreement but these goods were causing the ‘deaths of so many American soldiers that the United States Government must employ every means at its disposal to bring about the termination of their export’. It was suggested that exploratory discussions, going on with M. Hägglöf in London, should assume an official capacity. The United States Government was prepared to arrange for the purchase from S.K.F. of those ball- and roller-bearings and parts thereof which by agreement would go to Germany and her associates, and also for the purchase of steel and piston rings. It would do everything in its power to offset Swedish economic losses resulting from German retaliation, including the return to S.K.F. after the war of any property in Germany which might be expropriated in retaliation by the enemy. The Swedish Foreign Minister made vigorous and lengthy objection to the American demand: he

¹ Cf. Steckzén, pp. 580-7.

pointed out that the Allies knew perfectly well the position of Swedish exports to Germany when they proposed the new agreement in 1943: on the basis of this agreement the Swedes had with great difficulty concluded their new negotiations with Germany in January 1944. Sweden was being asked to break her solemn word. She did not wish to do so. 'We cannot denounce this Convention.' Its consequence would be that all trade with Germany would come to an end: yet imports of German coal, coke, etc., were the basis of her whole economic life. The arguments were familiar but none the less weighty. All that the American minister could do in reply was to quote a long passage from Mr. Hull's recent speech denouncing the neutral suppliers of Germany.¹ On the instructions of the Soviet Government the Soviet minister loyally supported the Anglo-American *démarche*, although it seemed evident to Mr. Mallet that 'as a past master in the art of diplomacy' Madame Kollontay regarded the Anglo-American efforts as distressingly crude. She believed that the Swedes would do everything possible to avoid serious quarrels with the Allies but that they would find concessions difficult because of all the publicity.

The British view differed from the American only on the score of tactics: the Ministry did not feel as it felt about the Spanish wolfram crisis which was now at its height, that the State Department was making an excessive fuss about details. On the contrary, it was convinced that in the case of ball-bearings the Allies were in sight of a major victory in economic warfare and that the Swedish contribution was proportionately so high as to be a decisive factor in the result. The Swedish contribution of 18,000 a day was estimated by S.K.F. to be $7\frac{1}{2}$ per cent. of Germany's daily supply since the last raids, which were believed to have reduced the pre-raid rate of production of 620,000 a day by 40 to 60 per cent. This estimate agreed broadly with that of the Ministry. The recent attacks on ball-bearing plants at Steyr (2nd and 3rd April), and Schweinfurt (13th April) were believed to have been highly successful; at Steyr the large new ball-bearing factory was thought to be out of action, and at Schweinfurt the vital portions of the Fischer plant were thought to have been hit for the first time. A telegram to Stockholm on 19th April shows the Ministry's high expectations. All the major Axis producers of bearings had been so heavily damaged that output in the coming months would not be more than 45 per cent. of the original capacity, and possibly very much less: further attacks would ensure that it did not recover. This meant that the proportionate importance of

¹ See p. 414 above. Privately, M. Boheman said that the note was the 'stupidest thing we could possibly have done', and M. Marc. Wallenberg called it an 'awful bloomer'. In short, things that might have been arranged secretly could not be carried out in the full glare of publicity. Cf. Hägglöf, *op. cit.*, p. 298.

Swedish exports in the total Axis supplies had reverted to the position obtaining before the reduction imposed by the war-trade agreement. Swedish supplies however would be even more important qualitatively than quantitatively, for Sweden would now in fact be the leading German source of high-quality bearings.

After the cool reception of the *aide-mémoire* of 13th April the United States Government agreed to try a direct approach to the company, although it was not prepared to agree to any resumption of exports after the three-months' period, and again proposed the threat of immediate blacklisting of the company if the demand for an embargo were not met by the Swedish Government. The Ministry was still opposed to this procedure, which might stiffen resistance and even jeopardize the war-trade agreement, thereby depriving the R.A.F. of the bearings which it needed and making these bearings available for the Germans. The War Cabinet agreed on 19th April to support the plan to purchase the entire output of S.K.F. for 1944 and 1945, and to consider the need for blacklisting only if this proposal were turned down. By 24th April the United States Government had come to very similar conclusions, and had decided to send Mr. Stanton Griffis of the U.S.C.C. to negotiate 'on a purely commercial basis' with S.K.F., after preliminary talks with the Ministry in London. Mr. Griffis was authorized to spend up to 20 million dollars, and to withhold the threat of blacklisting if he saw fit after consultation with the Ministry. So for the time being the more dramatic and forceful procedure had been abandoned by Washington.¹ For political as much as financial reasons the United States Government asked the British to share the cost of pre-emption, and the Chancellor of the Exchequer readily agreed with regard to both the immediate cost and any eventual loss, the earlier British pre-emptive purchases being taken into account. It appeared that the United States authorities were quite ready to agree to this.

Mr. H. W. A. Waring, a business man attached to the British legation in Stockholm, was appointed a joint negotiator with Mr. Griffis. Mr. Waring had been given facilities for studying the records of S.K.F., and it was on the basis of his detailed figures that plans were drawn up in London in consultation with Mr. Griffis. Waring brought to London full particulars of the position at 29th April 1944, including details of German orders accepted since 1st July 1943, the balance still undelivered, 1944 shipments, and orders not accepted by S.K.F. The company was able to point out that orders refused during 1943 were valued at 2,800,000 kronor for ball-bearings, 3,900,000 kronor for roller-bearings, 4,000,000 kronor for balls and

¹ For Griffis' own account of the negotiations, see his *Lying in State* (New York, 1952), pp. 113-21. His version is strongly criticized at certain points by Steckzén, *op. cit.*, pp. 591-2.

rollers; the corresponding figures for exports to Germany to date in 1944 were 1,580,000, 650,000, and 170,000 kronor respectively. The fact that Germany had made few enquiries for very small bearings during the latter part of 1943 was not attributed to lack of interest (there had been 'enormous' orders during 1942), but to the fact that British purchases had prevented delivery. There was a strong German demand for rolling-mill and heavy industrial bearings for bombed plants, but the company was not accepting orders for these. It had, moreover, not allowed switching of orders and had not accepted orders since October 1943, but the large roller-bearings orders outstanding at that date had worked temporarily to Germany's advantage since they could, from the balance of their outstanding orders, select for delivery those types that they most required. Waring believed that if duly pinned down, S.K.F. might be persuaded to put a partial embargo on exports to both sides. This point had been considered by the Ministry of Supply during April, and it had been agreed that if necessary the United Kingdom could dispense with Swedish bearings at this stage.

The Americans still hankered after the threat of blacklisting as the Allies' best weapon, and as part of the 'war of nerves' conducted enquiries into the question of the possible German interest in and control over the American subsidiary of S.K.F.¹ As was the custom while such an enquiry was being made the company's general licence for remittance was revoked and transactions permitted only under special licence. From Stockholm it was reported that the company was genuinely alarmed at the blacklisting threat. Perhaps then there was rather more justification for the American tactics than the Ministry had been willing to concede, and the blacklisting of a number of other firms later in May was agreed on by both the British and American authorities as a useful additional hint. Nevertheless, the publicity which had accompanied the ball-bearing campaign in the United States was undoubtedly an obstacle to success, although not perhaps an unqualified one, for there were some signs of rather belated regret in the Swedish press that Swedish industry should be directly helping the German cause.² The publicity no

¹ The profits of the American company were believed by F.E.A. to represent S.K.F.'s biggest single source of income at this period.

² The general tone, however, was one of indignation at criticisms of Sweden's correct behaviour. After the Allied *démarche* of 13th April the morning press on the 15th reiterated that Swedish exports to Germany had been greatly reduced in agreement with the Allies. *Morgontidningen* said that it was not the habit in Swedish policy to violate agreements with other powers whichever they might be unless absolutely necessary. *Ny Dag*, however, said that the Swedish people did not desire to help Germany by their commercial policy and regarded with alarm every step by Western powers which led to a deterioration in their relations with Sweden. Cordell Hull's statement that the Swedish reply was unsatisfactory aroused further comment, the gist of which was that Sweden's attitude, based on her rights as a neutral and her own interests, could not be modified by Allied 'dissatisfaction'. Several newspapers pointed out that the Allied powers had constantly

doubt made it harder for the Swedish Government, for reasons both of prestige and of concern at possible German retaliation, to agree rapidly and publicly to concessions which might have been made surreptitiously.

Certainly Mr. Griffis and his U.S. colleague, Mr. Douglas Poteat, had their photographs and large headlines in the Swedish press on 9th May. At the same time an exclusive interview with Mr. Dingle Foot appeared in the *Svenska Dagbladet*, with the announcement that in spite of great sympathies for Sweden 'we take a very serious view of Sweden's exports of ball-bearings to Germany'.¹ There seemed to be some genuine concern in Sweden about the Allies' real intentions. On 8th May M. Marc. Wallenberg, after expressing his amazement at the 'stupidity' of press publicity regarding Griffis's visit, said that as a result of the injudicious Allied publicity the ball-bearing question had become one of prestige for the German Government; he shared M. Boheman's belief that it had moved from the commercial to the high political plane of Ribbentrop and even Hitler himself. The British legation continued during May to hear echoes of the Swedish suspicion that the Allies were trying to force Sweden into a breach with Germany.

Mr. Griffis had been instructed to demand that his negotiations with S.K.F. should be concluded within a week. The discussions went on, however, for a month, although they ended in the substantial achievement of the Allied demands.² The company agreed on 12th May to place a complete secret embargo on the export of all ball- and roller-bearings and ball-bearing machinery during the course of the discussions. Urgent representations from the British and United States legations ensured the maintenance of this secret in Washington and London. S.K.F.'s first suggestion on 12th May

proclaimed the inviolability of international agreements. *Aftontidningen* (27th April) suggested that Sweden would reply to interruption of safe-conduct traffic by withdrawal of British courier facilities. *Stockholms Tidningen* (1st May) refers to arguments in the United States press that Sweden should feel gratitude to the Allies for saving the world by remarking that it was strange that these opinions should be voiced by states which had always claimed to protect the freedom and sovereignty of small nations; Sweden had no share in the mistakes and errors between 1918 and 1939 which led to the present conflict, although she recognized that Allied victory would save Europe from German domination. Swedish press comment on 5th May on the Spanish agreement over wolfram was that the Spanish case could not be held up as an object lesson to Sweden since Spain had been openly non-belligerent. The Griffis-Waring mission was greeted with signs of satisfaction: *Svenska Dagbladet* (7th May) said that it would now be possible to explain the facts of Sweden's commercial relations with Germany. *Dagens Nyheter* (6th May) thought that American action against Swedish ball-bearings was partially actuated by motives of prestige and propaganda, although Sweden was conscious of real military objections to a part of the ball-bearing exports.

¹ Mr. Foot's further statement that a neutral was under no obligation to export to a belligerent and the fact that Griffis was to negotiate with the company and not with the Swedish Government were seized on by those portions of the Swedish press that were anxious for a way out of the impasse: they argued that it was one thing for the Swedish Government to be compelled to violate a treaty and quite another for a business arrangement to be made which many Swedes would welcome.

² Hägglöf, *op cit.*, pp. 298-300, deals rather sketchily with these important negotiations.

was that the types of ball-bearings to which the Allies objected might be prohibited on the ground that they were component parts of war machines; the total quota figure of 29,000,000 kronor worth of exports to Germany in 1944 would, however, have to be maintained. The Allied reply was that all ball- and roller-bearings were potential components of war machines. The company then asked whether it might not be possible to prohibit the export of the types of bearing objectionable to the Allies, while the orders placed in substitution for these should not be filled until the last months of the year. For the next fortnight no progress was made; while the Allied representatives continued to press for a total embargo on exports of ball- and roller-bearings to the Axis the Swedish Government would not contemplate a ban on anything but a comparatively small category of ball-bearings specifically usable only for aircraft production.

Sir Victor Mallet believed that Mr. Griffis had done much by his tact and discreet bearing to live down the effects of his much advertised arrival, but he had perforce to negotiate in the full view of the world, and the Swedes themselves were exasperated by the 'sentimental appeals' which Mr. Griffis used on occasion.¹ He soon discovered that he could not deal separately with S.K.F., and that at every turn the Swedish Government had to be consulted: the company were unwilling to be branded as bad Swedes, disloyal to the Government's policy of neutrality; the Government on the other hand claimed that it would be grossly unfair to blacklist the company for acting in conformity with the expressed policy and desires of the Government. No doubt this mutual delicacy of feeling was a test of Allied resolution, but as there was no sign of weakening the company at last offered much more acceptable terms on 26th May. There were two proposals on that day: the first was considered to be 'clearly unsuitable' by Griffis and Waring, but it was later 'worked up into something' which the Allied representatives in Stockholm felt strongly should be accepted.

The proposed agreement provided that the total embargo should continue until 5th June, and that a total embargo on aircraft bearings should continue from that date until the end of the year 1944. After deducting the amounts involved, the balances available under the existing quotas for export to Germany under the existing German-Swedish trade agreement were to be made available in seven monthly instalments (June to December 1944) of 1,518,000 kronor for Germany and 298,000 kronor for the rest of Axis Europe. The figure for Germany thus arrived at was, however, to be halved for the period 1st June to 31st August 1944, so that the value of

¹ Griffis, who represented F.E.A., writes, 'I was fortunate indeed that on this mission I could negotiate in my own way. I could use threats of force, yet the Swedes could not know whether these threats were official or unauthorized' (*op. cit.*, p. 117).

exports to Germany during that period would be 760,000 kronor a month. (This compared with monthly quota figures of about 2,000,000 kronor for Germany and 700,000 for the rest of Axis Europe under the German-Swedish trade agreement.) Monthly deliveries of ball-bearing machinery during the period 1st June to 31st August would be reduced to 50 per cent. of one-seventh of the value of the machinery remaining undelivered against the quota. After 1st September the undelivered proportion could be delivered in equal monthly instalments. Finally, the existing agreed division as between ball- and roller-bearings and component parts would be maintained.

It could be said for this proposal that it would eliminate the export of many dangerous types of bearings, and that the total exports to the Axis for the period 1st June to 31st August would be reduced from 2,865,000 to 1,191,000 kronor a month. The question of compensation had not been settled, but the company had put forward no exorbitant demands. On the other hand the proposals did not meet the Allied demands in their entirety, since S.K.F. would still be able to export to the Axis certain types of bearings that could be used in aircraft, and while it was considerably better than had been expected in all the circumstances it had to be asked whether more could be obtained from a further struggle. On this point the Allied representatives in Stockholm seemed agreed at this time. Waring thought the offer a fair one and the best that could be obtained, and he understood this to be Griffis' view also. Mallet, acting on this advice, telegraphed that nothing more favourable would be obtained even if extreme pressure were used, for this would confirm the Swedish Government's suspicions of Allied motives. This was also the view of Madame Kollantay.

In Washington, however, the demand for a total Swedish embargo on ball-bearing exports to Germany was so strong in certain quarters that it was impossible for the State Department to accept the proposals of 26th May, particularly as the U.S. minister, Mr. Herschel Johnson, had, without informing his British colleagues, recommended further pressure.¹ The British embassy in Washington knew enough of this interdepartmental struggle to be aware of its critical importance: it accordingly welcomed a visit to Washington by Mr.

¹ Griffis's report to the State Department recommended acceptance unless the United States Government was willing 'to take immediate, strong and direct action against the Swedish Government and the company to enforce a complete embargo'. On 3rd June Mr. Johnson told Sir Victor Mallet that this sentence had been badly worded, and that such action would almost certainly not have the effect of inducing the Swedish Government to enforce a complete embargo. He then told Mallet for the first time that he and Griffis had recommended to their Government that while accepting the company's offer in principle they should attempt to secure certain further reductions in exports to Germany and prolong the reductions by one month until the end of September. Mallet told the Ministry that he had to admit to some surprise that these amendments should have been put forward without a word to Waring or himself.

Foot and Mr. Riefler (they left England on 26th May). In anticipation of the failure of the ball-bearing negotiations the United States authorities had sent a long telegram to London in April reciting alleged breaches of the war-trade agreement which would justify the suspension of basic rations if the negotiations were unsuccessful. Exhaustive investigations by the Ministry and the United States embassy officials in London resulted at the end of May in the emergence of only a 'somewhat miserable mouse' from this 'mountain of work': on balance the breaches were seen to be comparatively trifling. The unimpressive results of this enquiry had rather the effect of increasing the breach between the departments in Washington, while it diminished still further the Ministry's patience with the advocates of coercion. Expert opinion in Washington soon questioned whether the proposed agreement of 26th May would necessarily injure the Germans; if the bombing of aircraft assembly plants had been as successful as was supposed the Germans might no longer have any immediate need for small sizes or even for aircraft bearings at all, so that the new arrangement would simply enable them to switch their orders to types that they really needed. And since the fulfilment of these new orders would in any event take time, they might lose little by the reduction in deliveries over the next three months.

We have some glimpses of the struggle in Washington from Mr. Dingle Foot's account of the negotiations. He found the State Department and F.E.A. under intense and almost hourly pressure from the War and Navy Departments; the latter were understood to have made violent representations to the acting Under-Secretary of State, Mr. Stettinius, against acceptance of the S.K.F. offer. 'Swedish ball-bearing production is a subject which in Washington at any rate never palls,' wrote Mr. Foot to Lord Selborne on 8th June, 'it appears to excite almost all the passions of which human nature is capable.' Mr. Dingle Foot himself discussed the matter 'at interminable length' with the Secretary and Under-Secretary of the Navy Department and with many officials of the State Department and F.E.A. In a very long conversation between him and Judge Patterson on 29th May the Under-Secretary to the War Department argued that the whole economy of the small European countries was still at the service of the Germans; the Allies should not strengthen that economy by permitting imports from overseas. 'A couple of healthy Black Lists' might have a salutary effect. When Mr. Dingle Foot pointed to the substantial reductions conceded by Sweden in the 1943 war-trade agreements he questioned whether the Swedish figures could be trusted. The State Department finally decided that it was impossible to accept the proposals on 26th May as they stood, and after an extremely lengthy meeting on 3rd June the British

representatives agreed with the State Department and F.E.A. on a series of counter-proposals. Representatives of the service departments were to see Mr. Stettinius on 5th June, and it was considered desirable that the new proposals should be sent to Stockholm before this meeting took place, so that Mr. Stettinius could say that he had not accepted the original S.K.F. proposals as they stood.¹

The Allied counter-proposals asked for a satisfactory pre-emptive agreement which would effectively block German substitute orders for various classes of bearings, and for the opportunity for Waring and some American colleague to inspect the reduced schedules for deliveries up to 1st October. The Swedes showed great irritation and despondency at the new demands, and their annoyance was increased when Mr. Griffis saw fit to open the discussions on 6th June with an emotional appeal for their cooperation.² However, the news of the Allied landings in Normandy was a powerful argument for acceptance, and after critical discussions on 7th June the company offered acceptable terms on the 8th. These terms had been worked out by Waring and Wallenberg on the morning of the 7th, and then put to the S.K.F. representatives as a statement of the Allied desiderata; the company, after consultation with the Swedish Government, asked that the proposition should be regarded as coming from them and not from the Allies, and this was agreed. This complicated procedure, which was no doubt intended to avoid as far as possible the suggestion of coercion, meant that the agreement took the form of a letter from the company announcing its intentions.

The agreement improved on the terms offered on 26th May³ mainly by extending the period of reduced deliveries until 12th October.⁴ But it also reduced the value of deliveries to Germany during the four months from 8th June to 12th October to a maximum of 470,000 kronor a month for bearings and parts. The total figures and the monthly ceilings for this period are set out in the table on the next page.

The agreement also provided that (a) monthly shipments would be distributed over as large a range of types as possible, a reasonable latitude being allowed; (b) the undelivered balance of the various quotas outstanding on 12th October 1944 would be delivered thereafter in equal monthly instalments up to the end of the year; (c) the division of the annual quota laid down in the 1943 war-trade agree-

¹ On 8th June, Mr. Foot himself had an interview with Mr. Stettinius, 'who emphasized how hard he was being pressed by his colleagues in the War and Navy Departments'.

² Sir Victor Mallet commented in a private letter to G. H. Villiers on 13th June: 'I have heard some extremely harsh things said of the excellent Stanton Griffis . . . mainly because of his habit of turning on sob stuff. Boheman said that the "American mothers" type of argument was the worst possible one to use and Griffis had employed it far too much.'

³ See pp. 487-8 above.

⁴ For Steckzén's account: *op. cit.*, pp. 591-6.

S.K.F. exports to Germany, June–October 1944

(in Kronor)

	Bearings and Parts		Machinery	TOTAL
	Germany	Satellites	Axis	
Balance of export quota for remainder of 1944 at 12 May	15,685,000	3,582,000	1,865,000	21,132,000
Monthly exports for period 8 June–12 October	470,000	298,000	133,000	901,000
Total exports for period 8 June–12 October	1,880,000	1,192,000	532,000	3,604,000

ment between ball-bearings, roller-bearings, and balls and rollers would be maintained unless waived by mutual agreement; (d) there would be no substitution of existing orders either for Germany or satellite countries; (e) in return, the British and United States Governments would place orders with S.K.F. for 10,272,420 kronor and would guarantee them against any loss involved by the reduction in exports to the Axis up to a maximum of 5,750,000 dollars.¹

Transactions of this type, when viewed in retrospect and described in summary, can be dismissed as mere examples of the incidental successes that fall to victors on the main fronts. There is certainly no doubt that the approach of Allied military victory was the most powerful factor in determining the increasingly accommodating policy of all the European neutrals. And yet the details show how varied were the obstacles to any easy Allied success, and how divergent might be the methods even of two faithful Allies in dealing with neutral hesitations. Each of the three parties to the ball-bearings agreement of 8th June viewed the conduct of the others with some degree of disapproval. To many British officials the American tactics seemed faulty; they believed that it might have been possible to secure greater concessions from the company 'if the water had not already been muddied'. In their view the wording of the American note of 13th April had put up the backs of the Swedes, and the publicity given to this and the later moves had revealed the Allied plans to the enemy, and no doubt subjected S.K.F. to strong German counter-pressure. In the United States there was greater difference of opinion; many officials probably agreed with the British; but the view that the Swedes were holding back partly through fear of Germany and partly through a desire for war-time profits was strong in the service departments, and led naturally to the assumption that forceful methods would pay best. Mr. Foot, who was still in Washington, wrote on 8th June, 'The news from Portugal—welcome as it is—

¹ It was agreed in July that 60 per cent. of the liability for these purchases should be assumed by the U.S.C.C., and 40 per cent. by the British Treasury.

has not made things easier in relation to Sweden. The Americans are well aware that we were prepared to compromise on Portuguese wolfram and they feel, with some justification, that they have been proved right. It is not unnatural that they should apply the moral to Swedish ball-bearings.' There was a moment of doubt as to whether even this new agreement would be accepted in Washington: would the State Department feel able to accept anything less than a complete embargo on all ball-bearing exports? When the State Department duly authorized Mr. Herschel Johnson to approve of the S.K.F. proposal, it was on the clear understanding that the Allies retained full freedom of action as regards both the company and the Swedish Government. This point, in the British view, had already been made sufficiently clear, but interdepartmental tension in Washington compelled the State Department to cover itself in this way. The result was a final hitch on 12th June, when both the Swedish Government and the S.K.F. company showed their intense dislike of the Allied reservation, describing it as 'one of the most crooked ways of concluding an agreement that can possibly be imagined'. But after this blunt statement, M. Boheman 'took note of what was said', and letters were exchanged concluding the agreement.

(iv)

The last phase

By this stage the war had entered its last phase, and with the certainties before it of Allied victory and Axis collapse the Swedish Government during the next six months progressively reduced its remaining contacts with Germany. Concessions indeed now came so rapidly that the Americans were sometimes found to be forcefully demanding programmes which had already been achieved or superseded. After the ball-bearing agreement the two chief points outstanding with the Swedes under the existing agreements were the question of the Bothnian ports transit traffic and the reduction of ceilings when a country previously occupied by the enemy ceased to be occupied in whole or in part. The Swedish Government announced in June that transit traffic through the Bothnian ports would cease entirely on 1st August. From that date transit traffic across Sweden to Norway and Finland would be limited to 120,000 tons a year and would not include any war material.

The problem of ceilings was, however, very much more involved. It had first arisen in 1943 when Italy had ceased to be a belligerent, and was one of those seemingly obvious issues which speedily involve complexities in application. In accordance with paragraph XXI(ii)

of the Swedish declaration of September 1943 the various provisions of the war-trade agreement needed amendment, owing to Italy's withdrawal from association with Germany, 'more especially as regards a proportionate reduction of Swedish exports to Germany and remaining associated countries and occupied territories so that the remaining countries will not benefit from such withdrawal'. But on what basis should a proportionate reduction be made? The Ministry foresaw endless 'hours measuring square miles', and reminded themselves that some landings were taking place in Italy that were merely temporary or diversionary. The Swedish Government seemed in no haste to discuss the matter. Eventually a complicated Anglo-American proposal was put forward and accepted by the Swedes in July 1944. This provided that all 1944 ceilings for exports to enemy territory should be calculated on the principle that the reduction should bear the same relation to the original ceiling as the Swedish exports to Italy in 1942 bore to Swedish exports in that year to all enemy territory. No allowance was demanded to meet the fact that exports to Italy had continued in 1943 after the Italian armistice, but this was not to be taken as a precedent. In general, the date of the armistice should be taken as the effective date of withdrawal of any country at war with the United Kingdom or the United States. A country was to be regarded as liberated from Germany when at least fifty per cent. of the territory, as defined on 1st September 1939, was freed. Once the Allied forces had secured a firm lodgement, i.e. at least 1,000 square miles, in any enemy or enemy-occupied country, the ceilings were to be reduced by half.

From this point it was possible for the Allies to work for their final goal, the complete stoppage of the remaining Swedish exports to Germany. Early in July 1944 the British and American authorities discussed the desirability of blacklisting Swedish shipbuilding firms which had been delivering ships to Germany, and which were known to have a considerable number of new vessels nearly ready for transfer to German ownership.¹ It proved unnecessary to carry out the blacklisting threat. A request to the Swedish Foreign Ministry for the delaying of deliveries proved so effective that delivery was suspended from 7th July for a period of thirty days which was then extended indefinitely. In August, as a result of steady pressure by Sir Victor Mallet powerfully assisted by the Allied raid on Stettin of 16th August, a further considerable success was achieved. On 10th August the Swedish Government refused insurance for Swedish ships sailing to Axis-controlled ports west of the Kiel Canal; on the

¹ Under the Anglo-American-Swedish war-trade agreement of 1943 the firms could construct and deliver these ships to Germany in exchange for ships' plates (see p. 472 above).

18th it refused insurance for Axis-controlled Baltic ports as well. As Swedish ships would not sail to foreign ports without Swedish state insurance this meant an almost complete cessation of Swedish-German trade, for it was known that German ships would be needed for the evacuation of German troops from the Baltic States and Finland. The danger that German ships used for the evacuation would be replaced by extra Swedish shipping for German-Swedish trade was also removed.

The United States still preferred, in spite of earlier rebuffs, the procedure of categorical official demands for concessions from the Swedish Government, which still resented having to concede in this formal public way points which it might well be prepared to concede in substance. After prolonged discussion between London and Washington, in which the Ministry made clear its belief in the tactical advantage of less formal procedures, the British and American ministers, supported by their Russian colleague, presented to the Swedish Government a joint message from Mr. Eden and Mr. Hull to the effect that, in view of recent military developments, the time had come for a radical change in Swedish policy towards the enemy. The United States minister gave at the same time an oral explanation that what the two Governments were demanding was a public rupture of all commercial relations between Sweden and enemy countries. He hinted at the possibility of sanctions in the event of a negative reply. Mr. Hull told the press on 18th September that the note of protest to the Swedish Government had been presented. The Allied demand was rejected; contrary to expectation, however, there was no strong American reaction. This, it would seem, was mainly because on 27th September the Swedish Government had taken administratively a further long step towards the desired end, by closing all Swedish Baltic ports to foreign shipping, owing to 'the completely changed situation in the Baltic'.¹

For reasons outside the field of economic warfare the British Government strongly desired to keep open the west coast ports of Sweden, although this desire was outweighed by the importance of stopping the supply of ball-bearings and of significant supplies of iron ore. As to the latter it could be assumed that the small trickle which could now reach Germany through the remaining iron-ore port of Narvik would not be of use to Germany for at least nine months and was, therefore, hardly likely to play any part in her war economy. It was believed, however, that ball-bearings were still a major German deficiency. Under the May agreement the limitation on exports would end on 12th October, after which S.K.F. would be at liberty to export to the Axis an additional 14 million kronor worth

¹ The Swedish Government wished to keep open the Helsingborg ferry in the interests of the Danes.

of bearings. The next move was, therefore, sustained pressure on the company in late September and early October for a 'clean break', and on 8th October the Board of S.K.F. decided to terminate all deliveries to Axis Europe. This action followed a letter from the British and United States ministers threatening blacklisting if the company did not meet the Allied wishes; but the letter was sent at the company's own suggestion, and was actually drafted in consultation with the managing director.

Although the ball-bearings campaign had always been an embarrassment to the Germans it had not proved to be the Achilles' heel of German war economy, mainly because the Allies had been unable to drive the victory home after the earlier Schweinfurt raids. And the Swedish concessions had to be paid for. The last important stage in the ball-bearings story was a prolonged wrangle over compensation. The Allies had agreed to place orders with S.K.F. and to compensate it for losses in exports as a result of its agreement to postpone the bulk of its ball-bearing exports to Germany until after 12th October 1944. Under the second of these heads there were no claims, but under the first the British and American Governments had to pay 10,272,420 kronor. The question now arose, should the Allies compensate the company for losses resulting from its agreement to discontinue exports *after* 12th October? In taking its decision on 8th October the company had made no conditions, and had been given no promise of any such compensation by the Allies. Yet it made it clear that this was expected, and both Sir Victor Mallet and the Ministry of Economic Warfare considered that there was a moral obligation to pay. The Americans disagreed. In London the Foreign Office and Treasury were also sceptical, but acquiesced in the end. The United States Government was, however, prepared to recognize an obligation to pay the company for such bearings, machinery, and the like as would, but for the agreement, have been delivered between 12th May and 12th October. Negotiations between the representatives of the two Governments and S.K.F. proved very difficult and went on throughout the winter, the final agreement not being concluded until 28th February 1945. It was remarked that S.K.F. were not prepared at any stage 'to make any concessions without being forced to do so'. The total United States payments, which were limited to the period ending 12th October 1944, were 12,301,563.27 kronor. The total British payments, including the earlier pre-emptive payments and the payment for the frustrated exports to Germany between 12th October and 31st December 1944, were 33,751,042.44 kronor.

And now the Allies could secure their final objectives in Sweden. Just before the closing of the ball-bearing exports on 8th October the United States proposed joint Allied pressure to secure the closing of

Gothenburg and Malmö to German shipping, the cessation of iron ore exports through Narvik, and the limitation of exports via the Helsingborg-Helsingor (Denmark to Sweden) ferry to small parcels. The next move was accordingly an Anglo-American approach to the Swedish Government urging it to stop the export of goods of particular importance to the German war effort and to reduce the export of other goods to token quantities. The first category specified charcoal pig iron, special steels, machine tools, cold rolled steel, selenium, caesium chloride, cobalt slag, lithium carbonate, electric motors and transformers, and various instruments. Iron ore was also included, but the two legations supported the view of the Swedish Government that unless the existing trickle of iron ore, as well as paper and pulp, were allowed to continue, the Germans would stop the Gothenburg traffic, which would in turn lead to the counter-retaliatory step by the Swedes of closing the west coast ports—a result that the British wished to avoid. The Swedish reply was prompt, and by no means unsatisfactory: the export of all the specified commodities except iron ore had ceased: in return, the Allies were asked to allow the immediate loading on the s.s. *Saturnus*, which was at New Orleans, of a cargo of buna, natural rubber, carbon black, tyre cord, magnesium oxide, cadmium, and 250 tons of other chemicals. These supplies were to cover the Swedish tyre-making requirements up to 1st July 1945. The Swedes also offered to stop from 1st December 1944 the export of all steels, and not solely the special steels specified by the Allies, if in return the Allies would agree to the immediate export to Germany of 175 tons of these special steels. F.E.A. and the State Department in Washington and all the departments concerned in London regarded the request for the *Saturnus* cargo as reasonable, and steps were taken to secure the approval of the Combined Raw Materials Board. But the matter was not to be settled without a further incursion into the diplomacy of the exigent service departments in Washington: they demanded the immediate cessation of all Swedish exports to Germany in return for the *Saturnus* cargo.

November was taken up with arguments about this cargo, while the Ministry once more found itself in something of a mediatory position between the Swedes in Stockholm and the brass in Washington. The Ministry proposed that the *Saturnus* should be allowed to sail in return for a Swedish undertaking to embargo all exports if called on to do so after the ship's arrival. After heated discussion Sweden agreed to embargo 'any commodity that can be considered as important for the conduct of the war', and to leave the decision on all Swedish exports to Germany to the J.S.C.¹ While the Swedes

¹ This would apply after the arrival of the *Saturnus*. This provision was due to the obvious danger that Germany would close the Gothenburg traffic in reply to an embargo on Swedish exports to Germany.

were putting forward this formula, the United States Government without consulting its ally in London instructed its minister in Stockholm to demand a complete cessation of all Swedish exports to Germany either immediately or on a date to be fixed, and to inform them that in the meantime the United States Government was not prepared to authorize the export of the tyre-making materials. The wording of the message left a number of points in doubt—whether the materials would be authorized if the Swedes agreed, and whether the cargo would include natural rubber—and the United States minister took advantage of the obscurity of the instructions to suspend action while seeking clarification. A weighty memorandum was given by the Ministry to the United States embassy and taken by an American official to Washington on 18th November. This asserted that the present trickle of Swedish supplies could have no effect on the duration of the war; that the Swedes feared that a complete embargo would lead to the suspension of the Gothenburg traffic; and that the refusal of the *Saturnus* cargo would entail the loss of Swedish goodwill at a time when certain military operations in Scandinavia were almost entirely dependent on Swedish cooperation. The departure from the policy of a united front was deplored. The State Department gave way a few days later, and authorized the cargo and sailing of the *Saturnus* on condition that Sweden undertook to terminate all exports to Germany as soon as the *Saturnus* arrived. This the Swedish Government at once agreed to do, and all trade between Sweden and Germany ceased on 1st January 1945.

CHAPTER XVII

SWITZERLAND

(i)

The Swiss-German Negotiations, 1943

THERE was no evidence that Swiss mentality or policy had been greatly influenced in the Allies' favour by the landings in North Africa. The immediate result was indeed disadvantageous. Germany occupied Southern France, and the visible presence of Axis troops on the remainder of the Swiss frontiers made it clear enough, as Mr. Clifford Norton, the British minister, wrote later, that 'the gates of the fortress of Europe [had] clanged around this small country'.¹ Germany was potentially weaker but more immediately dangerous. Throughout 1943, M. Pilet-Golaz urged the British and American ministers to allow Switzerland to adapt her economic relations with Germany gradually to changing circumstances, instead of confronting her with demands which would make a breach with Germany inevitable. 'It seemed that Switzerland was doomed to receive kicks from both belligerents,' he told them on 26th May 1943. 'It was difficult if not impossible for her to satisfy both sides.'

The Allied Governments had to decide how far Switzerland's resistance to their demands was due to an exaggeration of the danger through timidity or self-interest. Germany was hardly likely now to attempt a military occupation. She could apply effective reprisals throughout 1943 by reducing or cutting off supplies; but it was not necessarily to her interest to do so if this meant the loss of corresponding Swiss exports. Was Switzerland doing enough to secure from Germany the maximum limit of concessions? There seemed good reason as the year went on to believe that on the contrary she was seeking the maximum limit of Allied concessions, in the interest of her exporting industries. The Swiss appeared at times to be more insulated than any of the other European neutrals from the emotional or ideological impact of the war; after the supreme shock of France's collapse they had accepted severe rationing and mobilization, and had allowed the Federal Government to exercise plenary

¹ The gap was thereby closed through which, with the permission of the Vichy Government, Mr. Kelly had left Switzerland, and Mr. Norton had entered it, in April 1942.

powers as a necessary and temporary evil; but apart from this they had retained a comfortable standard of living and a conviction of the sacrosanct character of their neutrality which freed them from any sense of responsibility for the course of the struggle around them. This was not incompatible with the fact that most of the Swiss desired an Allied victory, and that many Swiss workmen were said to dislike working on Axis contracts. Mr. Norton remarked that his return from a visit to London at the end of 1944 was like a return to the air-conditioned saloon of a liner.

One could see through the port-holes the storm and stress of the weather or the heat of the tropics, but it was only by going on deck that one appreciated the conditions which the captain and crew were facing and by which they were being hardened and influenced.

Certainly the Allies found little cause for satisfaction in the early months of 1943. The Compensation Agreement of 14th December 1942 turned out to be a very poor substitute for the revision of the war-trade clauses which the Ministry had sought from the Sulzer delegation.¹ Instead of the first *tranche* of 2½ million francs' worth of commodities which the Swiss were to supply during the first four months of 1943, only 29,000 francs' worth of transit permits had been obtained by the beginning of March 1943. At the end of April, M. Thurnheer told the Ministry that additional *Geleitscheine* had just been issued which brought the total up to 234,000 Swiss francs, but this amount was still too insignificant to remove the suspicion that the Swiss had proposed the agreement in September 1942 merely as a means of keeping their hands free for their negotiations with the Axis over the renewal of the Swiss-German trade and clearing agreement of 18th July 1941. On the other hand these advanced so slowly as to suggest that the Swiss Government might be making a genuine attempt to effect the diminution of trade with the Axis which Dr. Sulzer had foreshadowed in his discussions with the Ministry in London. The negotiations began in Berne on 11th December 1942 and reached a deadlock on 15th January 1943, the day on which the Swiss-German agreement expired.²

At this point Germany was behindhand with the coal deliveries which she had promised in July 1941, and which were to continue after December 1942 in order to balance Swiss advances in the clearing account. Germany now demanded that Swiss exports to the Axis of raw materials, machinery, and the like should be maintained for the duration of a new agreement at not less than their previous levels even although Switzerland were compelled thereby to go short of

¹ See pp. 230-5 above.

² The agreement, originally terminable on 31st December 1942, had been provisionally extended to 15th January 1943.

products essential for her own economic or defence needs; that Swiss exports of agricultural and dairy products should be restored to their early 1942 level; and that Switzerland should reduce her exports of machines and machine tools to neutral countries such as Spain which had recently placed large orders. Although the Germans had put their demands forcibly they had behaved more correctly and courteously than on previous occasions.¹ The Swiss were prepared to finance orders to the extent of the balance remaining out of the 850 million franc advance under the 1941 agreement, but were understood to have refused to agree to the fresh financing of exports to Germany on the same lines. There seemed no doubt, however, that they would be compelled to grant further credit in the end, if only to ensure the continued delivery of coal. The breakdown meant that Swiss-German exchanges would continue only on a hand-to-mouth basis, and during February and March deliveries to Germany did in fact show a decrease, as compared with previous months, of the less desirable exports. This seemed proof that Swiss exporters and bankers had no confidence in the final repayment by Germany of her debts. As soon as the Federal Government discontinued its guarantee after 15th January Swiss banks subjected their advances on Swiss exports to onerous terms, which led the exporting firms to demand that their claims against the Reich should once again be guaranteed by their own Government. The Federal Government, influenced it would seem more by the pressure of powerful Swiss industrialists and fear of the political consequences of unemployment than by serious belief in a German invasion, virtually surrendered to the German demands at the beginning of April.

The Swiss explanation was simply that the Germans had undertaken to supply the arrears of coal and raw materials outstanding under the 1941 agreement, and the Swiss Government had therefore no alternative but to restore the guarantee on payment for all orders placed by Germany under the agreement up to 15th January 1943. They had moreover been surprised to discover that there were still about 350,000,000 francs' worth of the former credit outstanding; the whole of this was taken up by orders placed before 15th January, and there would therefore be a substantial increase in Swiss deliveries to Germany during the next few months. When Mr. Norton expressed 'the greatest astonishment and consternation at this surprising development' Dr. Sulzer replied that Switzerland had no option since she was completely bound by the 1941 agreement.²

¹ Speer noted, after a conference with Hitler on 6th March 1943, 'Economic warfare with Switzerland cannot be waged in the intensive form as envisaged, because the Fuehrer is of the opinion that the Italians might possibly try to render it illusory by an increased issue of navicerts' (Speer (Hamburg) Documents, 11th March 1943).

² A minute on Mr. Norton's telegram by an M.E.W. official reads, 'we think that Dr. S. should be told that we simply cannot swallow this'.

Further particulars were given by Dr. Hotz on 9th April. During the previous three months German coal deliveries had been one-third less than the agreed 150,000 tons a month. Total arrears under the old agreement were roughly 950,000 tons. The Germans now proposed to liquidate the balance of 650,000 tons over a period of four months. In return, Switzerland would continue to execute the orders covered by the credit balance, and Dr. Hotz admitted that these would include a considerable proportion of what the Ministry regarded as undesirable exports. The Germans were to be given further credit facilities based on the extent to which the coal deliveries exceeded 150,000 tons a month; the delivery of a further 1,800,000 tons of coal and coke products was visualized, over a period of a year. The Swiss Federal Council were sending a delegation under his leadership to Berlin on 12th April to negotiate a new trade agreement.

The Ministry felt that while the Allied Governments might have accepted with resignation the arrangement to liquidate arrears under the 1941 agreement, they could not possibly acquiesce in fresh Swiss commitments on the same lines. It was convinced that the cumulative effect of Allied air attacks and the industrial comb-out in Germany was making the Swiss contribution to Axis supplies of arms and munitions increasingly important; it was now believed to represent 7 per cent. of the particular classes of goods concerned. The comb-out of labour similarly increased the value of highly-skilled Swiss labour available for 'processing' work for Germany in Swiss factories. After a meeting of interested departments¹ at the Ministry on 15th April a variety of Anglo-American expedients were outlined in a telegram to Washington on 16th April. They included, in addition to diplomatic representations, the refusal of requests for military supplies outside the compensation deal; suspension of outstanding Swiss navicerts and export licences or alternatively the holding up of new applications; and a warning that the immediate reduction in the permitted enemy content of Swiss exports from 25 per cent. to the standard figure of 5 per cent. was being considered. Further possible steps might include listing and some withdrawal of shipping facilities. Mr. Foot on the 15th April and Mr. Eden on the 16th both spoke to M. Thurnheer of the British Government's serious concern and the likelihood of unwelcome action.

However, the Foreign Office and State Department both felt that pressure must stop short of any measures likely to lead to a diplomatic crisis, and Mr. Norton's qualms were varied and undisguised. The United States Government agreed on 19th April to give a warning (in the form of 'parallel' notes in Berne), provided that no action was taken which would conflict with an assurance already

¹ Ministry of Economic Warfare, Foreign Office, War Office, Treasury, Ministry of Supply; Mr. Garnett Lomax, commercial counsellor at Berne, also attended.

given to Switzerland as the 'protecting power' that she would not be allowed to starve. Action might take the form of revoking all export licences and navicerts except for goods either loaded or loading, and of holding up all new applications. But the other measures proposed by the Ministry were considered to be premature. Mr. Norton urged on 20th April that the holding up of new navicert applications would be a sufficient warning; Mr. Harrison, the U.S. minister in Berne, objected on 22nd April to all threats of specific retaliation, and proposed that the note should be couched in the most general terms until the German reaction to the current Swiss proposals was known.¹ The State Department and Board of Economic Warfare, feeling that it would be impossible to secure Mr. Hull's agreement to the ignoring of Mr. Harrison's advice, proposed a corresponding revision of the draft text of the note. They also proposed, however, that the presentation of the note should be accompanied by an oral warning. For some days the Ministry sought, without much success, to strengthen the draft. In the meantime the Swiss delegation returned from Berlin without having reached any decision, and Mr. Norton at once suggested that the presentation of the notes would no longer be either desirable or useful.

The plain fact was that the Foreign Office and State Department were not prepared to agree to demands which might be sufficiently drastic to force Swiss compliance, but which might cause a diplomatic breach or an Allied retreat if the Swiss refused to budge. When it became known that the Swiss-German discussions were to be resumed in Berne on 12th May, and that the Federal Council had not modified its original instructions, it was decided that the 'parallel' Anglo-American notes should after all be presented. But the terms were still too vague to suggest that the two Governments would necessarily make themselves particularly unpleasant. The notes merely said in general terms that the two Governments had been reluctantly compelled to reconsider their attitude with regard to facilities for imports into Switzerland, pending a satisfactory clarification of Swiss trade policy towards Germany. The two ministers gave more explicit explanations to M. Pilet-Golaz orally on 26th May after presenting the notes. The granting of navicerts and export licences had been, for the present, suspended, although this did not apply to the compensation deal or the goods required for specifically humanitarian purposes; other measures might in due course be taken; it was of paramount importance that there should be an immediate reduction in undesirable Swiss exports, and that no new

¹ U.S. export licences were also held up; but in view of Mr. Harrison's recommendation no formal statement to this effect was made to the Swiss. However, by what the Ministry regarded as a fortunate indiscretion on the part of B.E.W., it became clear to the Swiss legation that this was part of a deliberate policy.

credits should be granted. But M. Pilet-Golaz had already, on 20th May, made it clear that the threatened measures would not lead to any substantial modification of Swiss policy. He said that the Allied attitude was comprehensible, since Swiss industry was helping Germany, but the situation was not Switzerland's fault. If there were an embargo on foodstuffs, the Swiss people would have to go short; that was preferable to the prospect of internal trouble if they were unemployed.

A curious choice perhaps. The Allied demands had been put too cautiously to be alarming. The Germans agreed during the next few weeks to accept a cut of 20 per cent. in certain Swiss exports, although they wanted a higher price for coal; on this basis the Swiss Government carried on parallel negotiations with the Allied and German Governments during the next three months. Details of a new credit arrangement were explained by the Swiss delegates at a meeting of the Mixed Commission on 25th June. The Germans had agreed to supply 150,000 tons of coal a month for the last four months of 1943, on condition that for every ton delivered the Swiss importer would pay the price into the clearing and in addition pay in 50 francs a ton which would be available for use by German exporters. Advances where necessary would be financed privately by the banks with the guarantee of the Swiss Confederation. This was in effect the grant of a credit to Germany of a possible 30,000,000 Swiss francs. The Ministry regarded such a new credit arrangement with much exasperation after all it had said on the point; there were voices which suggested the breaking off of negotiations.

This course was rejected, but Swiss proposals to the Allies were scrutinized closely. A Swiss memorandum, handed to the Ministry on 21st June, offered to suspend exports to the Axis of dairy products and to limit exports of cattle to 5,500 for 1943; to reduce exports of certain classes of machinery to 80 per cent. by weight of the 1942 average from 1st July; to place restrictions on other machinery items after 1st August; and to restrict exports of other classes of goods such as textiles in return for imports. The memorandum also offered to implement the financial agreement with the Treasury and to provide additional supplies within the framework of the Compensation Agreement. These proposals were unsatisfactory in certain respects: they proposed to reduce exports of arms and machinery to Germany alone, and not to all Axis countries, and they were put forward only as a basis for negotiation with no guarantee that even the limitations already operating would continue. On 3rd July the Ministry asked for restrictions on a further number of commodities (including radio equipment and fuses), the application of the reductions to the whole of Axis Europe, limitation by value as well as by weight, and an immediate guarantee regarding the export of arms and machinery.

In reply to the last point a Swiss memorandum of 14th July said that the Swiss Government had imposed quota restrictions as from 1st July whereby exports of the following products could not exceed 40 per cent. in value of the corresponding exports to Germany in 1942: arms and parts thereof, explosives and munitions, gas meters (fuses), precision instruments for metal working, aircraft and parts, astronomical, mathematical, and surveying instruments and apparatus. As from 1st August, exports of the following would be limited to 80 per cent. of the 1942 values: ball-bearings, machine tools, and chronometers. There were further Allied demands and some Swiss concessions during the next three or four weeks, and finally on 17th August an Allied offer to re-open the food quotas at one-half of what they would otherwise have been, subject to three understandings.

1. The limitations on Swiss exports of arms and machinery to all European Axis and occupied countries as proposed in the Swiss Memorandum of 30th July 1943 will be observed from now on.
2. Adjustments in these limitations will be made in respect of any country or area in Axis Europe dropping out of the war.
3. The Swiss Government will not allow any further difficulty to arise in making available to His Majesty's Government reasonable amounts of Swiss francs for current requirements, pending resumption of negotiations with His Majesty's Treasury.

On these understandings the two governments would be willing to receive the Swiss trade delegation and to resume the negotiations which had been broken off in December 1942, although they added the warning that their proposals would apply only in existing circumstances.

The Ministry, indeed, did not feel that the Swiss were yet in the mood to make any really thoroughgoing concessions; since the spring it had felt that the return of the delegation to London without a previous agreement in principle would be merely a waste of time, and might have that intention. In a telegram of 5th June the Ministry remarked,

We have impression that Federal Council has not faced the issue or reached a decision, but hopes that Sulzer and Keller might succeed in pulling the rabbit out of the hat. It is important that the Swiss should realize that there is no rabbit.

Since then matters had advanced, but the doubt remained. On 23rd June Mr. Foot had warned M. Thurnheer that the Ministry could no longer undertake to refrain from pressure on individual Swiss firms in the watch and metallurgical industries; on 17th August Mr. Norton was instructed to resume pressure as soon as the U.S. minister received instructions to do likewise.

(ii)

The listing campaign

It was at this point that the Ministry, which had accepted the Swiss proposals without great enthusiasm, discovered that in any case their value had been largely nullified by a remarkable jump in undesirable Swiss exports to Germany during June and July. The Ministry protested in no uncertain terms. On 21st August, in a letter to M. Thurnheer, Mr. Foot wrote,

Your government can have no illusion as to the way in which we must regard the figures of Swiss exports we have just received . . . We have frequently been assured that the Swiss authorities intended to meet our wishes to the best of their ability. In spite of this, at a time when our armies are commencing the invasion of Axis Europe, we are faced with a sudden marked increase in Swiss assistance to Germany and her satellites. We can hardly regard this as evidence of a desire on the part of your Government to contribute to the liberation of Europe.

Calling attention to the more startling of these increases, he pointed out that the total exports under Group II (of the Swiss tariff) had increased from 3,108·9 metric tons, value 23,453,200 Swiss francs, for the first quarter of 1943 to 3,906·7 tons, value 32,012,000 francs, in the second quarter. The corresponding increases under Group III were from 2,748·5 tons (64,495,400 Swiss francs) to 4,361·5 tons (81,129,000 Swiss francs). The following were particularly noticeable.

	<i>First Quarter</i>		<i>Second Quarter</i>	
	<i>metric tons</i>	<i>Swiss francs ('000's)</i>	<i>metric tons</i>	<i>Swiss francs ('000's)</i>
Gas- and petrol-driven motors	729·0	3,983·7	910·4	5,915·5
Dynamo electric machines	287·2	2,695·4	1,225·7	9,798·4
Machine tools	1,567·2	20,171·3	2,209·1	28,409·9
Radio equipment	13·4	1,349·2	21·0	2,655·5

For the month of July the increases were even more startling in the case of steel ball- and roller-bearings, which had increased from 1,100,000 francs (June) to 2,700,000; machine tools of all kinds from 11,465,000 to 19,136,000 francs; other machinery from 1,202,000 to 2,115,000 francs. These July figures also showed an increase over the average monthly figures for 1942. The Swiss Government had agreed to reduce exports of three classes of these goods—steel ball- and roller-bearings, machine tools of all kinds, and radio equipment—after 1st August: the increased export would largely cancel the benefits to be obtained from this concession. The letter concluded by pointing out that this action was contrary to various assurances given by the Swiss Government.

The letter marks the opening of a new, and much more successful, phase of economic-warfare policy towards Switzerland. The growing probability of ultimate Allied victory no doubt helped matters. But how was this advantage to be exploited to the full? The suspension of raw material imports in September 1941 had failed, because Swiss industry could carry on profitably on German supplies. The suspension of food imports on April 1942 had only limited effect: the Federal Government preferred that the Swiss people should go short of food rather than of work. What was left? Among the retaliatory measures discussed in April had been the renewal, with the threat of blacklisting, of direct pressure on Swiss firms, which had been largely discontinued since December 1942. It was to this potent weapon that the Allies now turned. Pressure was to be exerted on firms engaged in the production of items in Groups II, III, and IV of the Swiss tariff, and especially of machinery, tools, fuses, and gas- and petrol-driven motors, and, in extreme cases, listing would follow. The Blockade Committee came to the conclusion that there was no need to withdraw acceptance of the Swiss offer, which represented some progress; but the Swiss were told that the decision to restore half the food quotas would be interpreted strictly so as to apply only from the date of the Swiss acceptance of the Allied proposal, i.e. from mid-August and not from mid-July.¹ American approval for the new policy came speedily, and by 26th August Mr. Norton and his American colleague were ready to act. Thus the Allied aim was to continue with the main negotiations with the Swiss Government but simultaneously to put pressure on individual firms, on the argument that as discussions with the Swiss Government had produced only limited success it was necessary to see whether direct negotiations with the firms would lead to better results.

The Swiss explanation of the increased exports was essentially that as 31st July 1943 had been fixed as a time limit for the completion of old contracts under the Swiss-German agreement, the firms concerned had hastened the completion of their contracts by that date. The restrictions which were to be enforced by the Swiss Government from 1st July and 1st August would, however, be far-reaching, and would mean a considerable slowing down of German orders. This was not very satisfactory: when Mr. Foot saw the Swiss minister with Mr. Riefler on 2nd September he asked why, if the Swiss Government had expected the increases to take place, it had done nothing to prevent them: it must have known what was happening. During September particulars of the Swiss-German discussions which

¹ In the case of quarterly and six-monthly quotas the Swiss were to be allowed to take half the existing quarterly quotas during the two remaining quarters of the year. With regard to annual quotas the Swiss were to be entitled to one-half of a half-year's quota, less any excess imported in the first half of the year.

reached the Allies suggested that the Germans were still able to strike a hard, or at least a favourable, bargain. It was thought best nevertheless to go ahead with the plans for receiving a Swiss trade mission in London; an agenda for the discussions was handed to M. Thurnheer on 30th September.¹ On the same day the Swiss Government gave particulars of a new trade and clearing agreement with Germany which was to come into force the next day (1st October) and to last until the end of the year. Germany secured in effect substantial additional credits in the clearing for this period: she was to supply an additional 300,000 tons of coal, and this was to cost an additional 50 francs a ton. There were to be substantial exchanges of other goods. The Foreign Office, it must be noted, was as determined as ever to avoid a diplomatic breach. Mr. Strang saw M. Thurnheer on 17th September, and spoke of British demands with regard to credits, transit traffic, and air communication. But although on the first of these matters he said that the Foreign Office took a serious view of Swiss intentions he shaped his comments in accordance with instructions from Mr. Eden not to be too severe with the Swiss Government.²

Listing was a weapon which, from the point of view of blockade policy, needed no justification; but its efficacy varied greatly in relation to the structure, vulnerability, and commitments of individual Swiss firms and industries. The extent to which German interests had penetrated Swiss economic life was illustrated by the fact that one-third of the names on the Statutory List for Switzerland represented firms definitely controlled by persons in enemy territory, mainly Germany. The German controlled firms fell into two groups: (1) sale agencies and manufacturing subsidiaries of German industrial concerns, and (2) important holding and investment companies formed for the purpose of exercising share control over other firms in Switzerland and elsewhere and of placing funds in non-German hands. Major German combines in Switzerland were represented by firms of both types. The reason for the establishment of the second

¹ The items suggested included the cessation of credits to Axis countries, further reductions of exports of arms and machinery, the use of Swiss railways by the enemy, particularly for the carriage of oil, the activities of Swiss banks, the cessation of trade between Japan and Switzerland, the control of the processing and repairing trade, exports of cattle and dairy produce, the future operation of the Compensation Agreement, the permitted enemy content in Swiss exports, the coordination of Swiss purchases with purchases by the United Nations in areas not directly under Anglo-American control, arrangements for the time when the Swiss frontier was again open, and the evacuation of children to Switzerland from enemy-occupied countries.

² 'In my presentation of our observations to him I bore in mind the Secretary of State's direction that we are not in present circumstances to be too severe with the Swiss Government; that on the whole they are behaving pretty well; that we are at present expecting them to receive large numbers of escaped British prisoners from Italy; that the closing of Genoa cuts their last link with the outside world; and that until we clear the Germans out of North Italy the Swiss will be even more completely surrounded and even more subject to German pressure than they have been hitherto.' (From Mr. Strang's memorandum of conversation: copy received by M.E.W., 18th September 1943.)

type in Switzerland was sometimes fiscal but also to conceal the ultimate German ownership, especially of assets in other countries. A large proportion of the holding and investment companies consisted of brass plates at the offices of Swiss lawyers, numbers of whom had several dozen to their credit. A numerical estimate of firms on the Statutory List for Switzerland on 2nd October 1943 gave the following figures:

	<i>Number</i>	<i>Percentage</i>
Total	1,125	100
German controlled	246	23·5
German and other enemy controlled	385	24

In general the Ministry had not hitherto listed firms which had limited their trade with enemy countries to normal pre-war figures, and in some cases it had been prepared to accept 'gentleman's agreements' for the limitation of exports instead of the formal undertakings. But the latter practice had not always proved satisfactory. Despite the honourable intention of individual directors, firms tended to consider themselves constrained by direct Axis pressure, or pressure from Swiss authorities, to ask the British authorities for release from, or modifications of, such agreements; this had been illustrated in the cases of Technica, Ebaujub, Tavano, and Schwob. It was for this reason that it was decided in October to obtain an undertaking from Hispano Suiza. When reduction was desired under a particular tariff the position varied considerably according to the number of firms involved. In the case of fuse production the position was favourable because of arrangements made in 1942 with such firms as Technica and Langendorf and, more recently, Tavano. Similarly reductions were possible in the cases of steel-ball and roller-bearings, aeroplanes and parts thereof, and magnetos. On the other hand machine hand-tool production was in the hands of so many firms that it would involve a long process before any results were visible. Further the Swiss Government, by re-allotting the quotas, could nullify the effect. Again, arms and ammunition were produced by firms which were, for the most part, already listed, and, with the exception of Hispano Suiza, not amenable to pressure. The Oerlikon works had been on the Statutory List since 13th November 1941.¹

The listing campaign proceeded vigorously during September and October. Some fifty firms were approached, varying in importance

¹ The Werkzeugmaschinenfabrik Oerlikon, Bührle and Co., owned by Emil Georg Bührle, a naturalized Swiss of German origin who converted his machine tool factory to the production of munitions which were exported in large quantities to Germany and her satellites, had been listed since 13th November 1941. This was, however, of the dozen Swiss firms in the machinery industry employing more than 1,000 workers, the only one on the Statutory List in October 1943.

from Sulzer, Maag Zahnraeder, and Brown Boveri to small fuse manufacturers.

It was, however, the firm of Sulzer of Winterthur which was particularly associated with the campaign, and whose reputation seemed to be a particular concern of the Swiss Government. For many years the firm had had a large sale, mainly on the export market, for its manufacturing products, particularly diesel engines. At the beginning of the war there were two Swiss companies, Gebrüder Sulzer A.G. of Winterthur, which was virtually the Swiss operating company, and Sulzer Unternehmungen A.G. of Winterthur, which was virtually a holding company for the Swiss and foreign interests. In January 1940 the firm disposed of its interests in Gebrüder Sulzer A.G. Ludwigshafen, its former German subsidiary. On 2nd April 1940 M. Robert Sulzer, on behalf of the company, explained that it was not carrying out any work for the German Navy or other German armed forces, either directly or indirectly, and did not intend in any way to modify these relations with German Government departments; there was, therefore, no risk that information relating to machinery types in use in the British and French naval forces would reach the German Government. At the time of the fall of France the company had very large orders on hand for France, particularly for the French Navy. Subsequently, during and after 1941, the bulk of its export trade had been directed to Germany and Axis-occupied countries, but the firm maintained that it had offered none but its customary machinery types, and that its considerable manufacture of war material, such as guns, ammunition, and other items, were rigidly restricted to orders placed by the Swiss Army. But while the firm would have claimed to be fair to both sides, the Allies were inclined to feel that it was having the best of both worlds. The position was complicated by the prominence in Swiss politics of Dr. Hans Sulzer, who was head of the Machinery Division of the Swiss Government's War Trade Organization, and the head of the Swiss delegation to England. He was, as Mr. Norton pointed out on 4th September, one of the few outstanding Swiss personalities with a knowledge of the Anglo-American world. The firm was one of the largest in Switzerland, with over 6,000 employees, a figure which was exceeded only by Brown Boveri, with which firm Sulzers had intimate commercial relationships.

The firm had shared in the recent export rush. On 22nd August Mr. Norton was instructed to investigate the Sulzer sales urgently. In order not to show the Ministry's hand he asked for figures covering a wider field than those in which it was more immediately interested. The figures, with a long letter justifying the firm's conduct since the beginning of the war, were given on 7th September. Those which interested the Ministry were as follows.

Sulzer's exports (in Swiss francs)

<i>Destination</i>	<i>Average Monthly Exports, 1942</i>	<i>May 1943</i>	<i>June 1943</i>	<i>July 1943</i>	<i>August 1943</i>
A. DIESEL ENGINES					
Germany . . .	247,000	1,414,000	3,634,000	7,209,000	5,000
Rumania . . .	133,000	126,000	7,000	865,000	785,000
Argentina . . .	95,000	10,000	5,000	nil	14,000
B. BOILER PLANTS¹					
Hungary . . .	175,000	157,000	731,000	711,000	237,000
C. CAST IRON AND STEEL ROUGH CASTINGS					
Germany . . .	37,000	28,000	16,000	Negligible	50,000
D. PUMPS AND FANS					
Germany . . .	15,000	63,000	nil	8,000	nil
Rumania . . .	56,000	nil	13,000	13,000	40,000
Italy . . .	3,000	6,000	29,000	4,000	1,000
Argentina . . .	10,000	26,000	48,000	17,000	97,000
Brazil . . .	9,000	10,000	8,000	21,000	37,000

No figures were given for exports to Japan. The company's explanation of the increase in diesel engine exports in June and July was that it had at the German request stored engines which had been ready for delivery at the end of 1942 and the beginning of 1943. Later, in the spring of 1943, the Germans, fearing that the Swiss would extend their export restrictions, had ordered the prompt despatch of these goods for storage in Germany. The company believed that the engines were not likely to be used in ships during the war. It added the information that several more similar engines would be finished and probably delivered to Germany before the end of 1943; 80 per cent. of the engines delivered in July were big marine engines which had 'no connexion with actual warfare';² the remainder were medium-sized heavy marine engines, destined mostly for river boats and unsuitable for the propulsion of naval craft. The company also claimed to have told the British authorities from time to time of the nature of its German orders.

The Ministry had no doubt, however, that the very substantial increases in exports made the firm a suitable candidate for the Statutory List, and on 11th September the United States embassy in London cabled the State Department and O.E.W. urgently seeking its agreement to this course.³ The Ministry's views were explained to Mr. Norton on the same day. While there was no direct evidence that the firm's exports were for the use of the German

¹ Exports to Germany had been 'nil' since March 1943 and to Rumania 'nil' since January 1943.

² 'To our knowledge they are being stored somewhere in central Germany and are not likely to be installed in ships before the end of the war. Not only are the hulls missing, but the taking into service of diesel engaged seagoing vessels of the mercantile fleet has been forbidden in Germany owing to lack of fuel.' (Letter from W. R. Sulzer to British consul-general, Zürich, 7th September 1943.)

³ The U.S. embassy elaborated its arguments in a further telegram on 12th September.

armed forces it had admitted in a letter of 17th November 1941 that the use of certain engines was unknown to it, and it had stated that its greatest endeavour was to maintain the then existing proportion in its manufacture. But there had undoubtedly been a very substantial increase of diesel-engine exports to Axis territory even as compared with earlier years; and although the export to the enemy of products up to the normal peace-time level was frequently accepted, it was not the Ministry's practice to agree to increased exports, which could only result in freeing German capacity to work on direct war requirements. The firm would therefore be placed on the Statutory List unless it signed the standard Swiss undertaking within a time limit to be specified by Mr. Norton. He was, however, authorized to agree to normal pre-war exports of the firm's products to enemy territory if the exact figures of these were disclosed to him. After receiving the British demand for an undertaking, Dr. Sulzer told Mr. Norton and Mr. Harrison, at a personal meeting on 14th September, that the news was a great shock to him, and he firmly maintained (which was indeed not contested) that his company had, unlike others, refused even under pressure to manufacture submarine engines or aeroplane parts or munitions of any kind for Germany, although in 1940 it had had big orders for submarine engines for France. The demand for an undertaking cast doubts on his firm's good faith and they would have to consider very carefully if they could sign it.

Events moved a little slowly after this. In view of this conversation and the fact that the U.S. minister had not received definite instructions, Mr. Norton did not at once ask formally for the signed undertaking. M. Thurnheer promised further figures. The Ministry told Mr. Norton on 20th September to postpone the presentation of the demand; but in the meantime (as the U.S. minister had now been instructed) Mr. Norton had asked for the undertaking within fourteen days. However, M. Thurnheer's figures merely amplified those already received, and in spite of some uneasiness Mr. Norton told the Ministry on 27th September that to withdraw now would be interpreted as weakness with ill effects on the pressure campaign as a whole. With this view the Ministry gladly concurred (on 1st October) but after a protest from M. Thurnheer on the 12th that insufficient time had been given to the company to make up its mind, it authorized Mr. Norton to extend the time limit to 21st October if he saw fit. A further long letter dated 13th October from the company did not appear to alter the picture. The final stage found the company determined to refuse the undertaking, but hopeful that an informal understanding—another gentleman's agreement—to reduce exports to Germany by approximately half during the next twelve months would satisfy Allied demands. At the same time the

managing director of the firm made it clear that he would expect his company to be given considerable latitude to export to other Axis territories, in particular Hungary and Rumania.¹ He hinted that a new and better offer of reductions would be forthcoming from the Federal Council on the 21st, and repeated the firm's objection to giving the formal undertaking (and in particular the propaganda clause, 5)² on the ground of its high standing. The Ministry had no great faith in gentleman's agreements, and it could not accept the view that Sulzers was being treated differently from other Swiss firms in comparable circumstances. Sulzer Brothers' name was accordingly included in the list published on 30th October 1943.

The Swiss Government made no attempt to conceal its dismay at the pressure on such leading firms as Sulzer, Maag Zalinraeder, and Brown Boveri, and it did all it could to persuade the Allied Governments to discontinue the campaign. A memorandum from M. Thurnheer, of 12th October, suggesting the discontinuance of direct approaches in return for further restrictions on Swiss exports to Axis Europe, turned out to be the forerunner of substantial concessions, but in the meantime there was some anxiety in the Ministry as to whether the Foreign Office would continue to stand firm, and the Americans would try to be too firm. Mr. Norton's personal belief, which was known to the Foreign Office, was that the full embargo on navicerts, which had been in force for four months, had not yet yielded any results which could not have been obtained by less stringent measures.³ However, two telegrams to Berne on 21st October said that Mr. Eden agreed to the listing of Sulzers, and to the maintenance of strong economic pressure on Switzerland 'at least until there is evidence that this is in fact prejudicing Swiss cooperation in other matters'.⁴ The Swiss Federal Council came to

¹ The firm's letter of 13th October had given its total exports to Germany since the beginning of the war as 23,000,000 francs, i.e. 5,750,000 Sw. francs per annum. The offer to 'reduce' the annual export to 7,000,000 francs therefore seemed derisory to the Ministry, which also was in no mood to agree to any latitude for exports to the satellite countries.

² This provided that the signatory would not 'directly or indirectly engage in the dissemination of propaganda, in sabotage, espionage, or any similar activity' and would not subscribe to any fund or organization for this purpose.

³ In a letter to the F.O. on 20th October, the Ministry flatly disagreed with these arguments. 'Throughout 1942 and the first half of 1943, the Swiss stubbornly refused to place any limitation on their arms and machinery exports item by item . . . Not until their food quotas had been altogether suspended for four months did they attempt to meet our requirements.'

⁴ The M.E.W. copy of this telegram is minuted, 'well done F.O.'. A memorandum by an official of the Ministry makes the following comments on the position at the beginning of November. 'The Foreign Office are naturally anxious that we should not be unduly harsh on the Swiss because of the services they render, as Protecting Power, etc. The Treasury are most anxious that financial negotiations should be resumed as soon as possible, as our Swiss Franc position is, if anything, more acute and shows no sign of easing . . . The Americans are suggesting a very tough line with the Swiss and are contemplating demands, which I feel no neutral country can accept. They also show no sign of allowing supplies for the use of the Swiss army, a concession to which we attach considerable importance.' (4th November 1943.)

the help of the firms when it decided to amplify the provisions of Ordinance No. 2 of 2nd November 1939 by forbidding them to enter into engagements with foreign countries 'which would have the effect of preventing them from carrying out obligations to export under quotas based on contractual engagements between the Swiss Government and these states'. This decision was announced to the British and United States representatives in Berne on 23rd October, with the explanation that publication of the new ordinance was being withheld for the time being in view of the conversations in Berne and London, and that new proposals for the restriction of exports were being elaborated and would be ready in about a fortnight.¹ This was pretty frankly an offer to save the face of Sulzer by government-sponsored concessions. Sulzers was, however, duly listed, although other listing was suspended for a fortnight.

As the Swiss were now clearly ready to go a long way to prevent pressure on individual firms, and as the need for speedy agreement on the question of arms and machinery exports for 1944 was urgent, the Ministry, in agreement with the United States embassy, suggested to Washington on 27th October that Mr. Foot and Dr. Riefler should fly to Switzerland for immediate negotiations. The State Department and F.E.A., however, decided against this proposal on the 30th. Their reason was partly their reluctance to expose Mr. Riefler to the hazards of the journey, partly their belief that notwithstanding the contrary views of the Ministry the best method of securing quick results from the Swiss would be to get them to London on the terms proposed in the joint note (i.e. with the threat of drastic sanctions). The Ministry had accordingly to drop its proposal and it went through some days of anxiety: unless the Swiss Government made substantial concessions quickly it would be necessary to reopen the listing campaign and perhaps agree to the tough moves proposed by Washington. Fortunately these complications proved unnecessary. M. Pilet-Golaz told Mr. Norton on 10th November that he had persuaded his colleagues with some difficulty to accept Mr. Norton's advice and not to fight perpetual rearguard actions; on the 12th the Swiss Government promised to make substantial reductions in the export of arms and ammunition, fuses, aeroplane parts, ball-bearings, machine tools, precision tools, and radio equipment. These would result in a decrease of exports to Axis countries, and particularly Germany, of about 90 million Swiss francs as compared with exports during 1942, and of 80 million as compared with those during the second half of 1943.

Professor Keller left Switzerland on 13th November to conduct the negotiations, and reached London on the 17th; negotiations

¹ The decree forbidding Swiss firms to give undertakings to any foreign Governments with regard to their exports was issued by the Federal Council on 4th November.

began at once. On the 19th the Ministry telegraphed to Washington that the proposals represented so substantial a reduction of undesirable exports as to call for immediate acceptance, even if it proved impossible to obtain certain improvements. The American authorities agreed in general to negotiation on this basis, and to the reinstatement of the full food and fodder quotas as from 1st January 1944 and if necessary to the reinstatement for the last quarter of 1943 of the remaining half of the food quotas including fats and oils. The discussions then proceeded smoothly between Professor Keller and the British and American representatives, and letters embodying an agreement were exchanged by Mr. Foot and Mr. Riefler with Professor Keller on 19th December 1943. The Swiss not only agreed to substantial and in some cases drastic reductions in their exports of a considerable number of categories but they also undertook to prohibit the export of dairy produce and to limit the export of cattle to a comparatively small figure. In return, the Allies were asked to abandon the campaign against Swiss firms designed to obtain individual restrictions of export, to de-list Sulzers, restore food and fodder quotas, and give facilities for other imports. It became evident during the course of the negotiations that the restrictions would be greater than the Allies could expect to achieve by pressure on individual firms, and they were accordingly willing to agree not to list firms solely for exporting goods which were subject to governmental restriction. They were not prepared to de-list Sulzers without some adequate undertaking, but agreed that this might be given by the Swiss Government on the firm's behalf.

In the exchange of letters of 19th December 1943 the Swiss Government agreed,

1. during the first half of 1944, to restrict certain vital exports, as named in Annex I, to Axis Europe,¹ defined as comprising the whole of continental Europe other than Portugal, Spain, Sweden, Turkey and the part of European Russia which was not occupied by enemies of the British and United States Governments;

¹ The main items were as follows. *Group I*: 20 per cent. of 1942 exports: arms and parts thereof; small arms' ammunition; precision instruments for metal working; ball- and roller-bearings; machine tools; aeroplanes and parts; fuses; radio equipment. *Group II*: 25 per cent. of 1942 exports: watchmakers' tools; chronometers, repeaters, etc.; astronomical and mathematical instruments. *Group III*: 40 per cent. of 1942 exports: refrigerating, textile, flour-mill, foodstuffs and other machinery; bicycles and parts; automobiles and parts; etc. *Group V*: fixed quotas: dynamo electric machines; hydraulic and wind machines; pumps; steam machines; textile machinery; gas and petrol driven motors (5,500,000 Swiss francs to 'other Axis' countries than Germany, Poland, Alsace-Lorraine, and Italy; not more than 3,500,000 for diesel engines). *Group VI*: zero quotas: radio valves; aeroplanes and parts; fuses. Total figures for each class were given in Swiss francs, amounting in all to 94,697,000 for Germany, and 44,909,000 for other Axis countries, excluding Italy, Alsace-Lorraine, and Poland. For Group I exports of each commodity during one particular month were not to exceed the monthly pro rata allocation by more than 25 per cent. of such allocation.

2. that while these goods might be exported to neutral European countries they must not be re-exported to Axis Europe;
3. that the undertakings now given would be reviewed at least every six months until the signature of an armistice by Germany, in order to consider which of the exports could be further reduced;
4. not to resume trade with Italy without prior consultation with the Allies;
5. should the Axis control over any European country cease, (a) not to make any trade agreement with that country without prior consultation with the Allies, and (b) to 'reduce Swiss exports to Axis Europe other than Germany of each global quota listed in Annex I by the same percentage as Swiss exports to such territory bore to the exports to the whole of Axis Europe other than Germany during the preceding six months';
6. to allow no adjustment in the price level which might nullify the effect of the agreement;
7. to allow no transfer of unused export quotas in such a way as to nullify the effect of individual undertakings, and to allow no transfer of manufacturers' quotas which would result in concentration on any particular article of manufacture;
8. (a) to suspend processing (*trafic de transformation actif*) under all tariff items in Annex I, and to limit exports under other tariff items; (b) to reduce to half the 1942 value various tariff items involved in the improvement trade (*trafic de perfectionnement actif*); (c) to reduce the export of items involved in the repair trade (*trafic de réparation actif*) generally to half the value of 1942 exports with the total suspension of repairs of vehicles or other war equipment for the account of Axis Europe;
9. not to authorize exports by the International Red Cross or other humanitarian organizations except with the prior consent of the Mixed Commission;
10. to coordinate if so requested all Swiss purchases for goods covered by blockade quotas or allocations with purchases made by or on behalf of the United Nations.

The British and American Governments for their part agreed (a) not to list Swiss firms in the metallurgical industry on the ground of their exports to Axis Europe of goods within the limits provided by the agreement, although they reserved the right to list or obtain undertakings from the firms for other reasons; (b) to de-list Sulzer Brothers on receipt of a satisfactory undertaking from the Swiss Government; (c) to restore full food and tobacco quotas or allocations from 1st January 1944; (d) to open a quota for fodder and examine other Swiss needs. Provision was made for further negotiations to commence in January 1944 with regard to the outstanding items of the agenda of 30th September 1943.

The Allies had every reason to be pleased with the agreement. Summing up the results it can be said that the Swiss Government had imposed restrictions which covered all the more important exports of the Swiss engineering industry, some being stabilized at the value of the 1942 exports, others reduced substantially. Exports of vital material such as arms, ammunition, bearings, machine tools, fuses, and radio equipment were to be reduced in 1944 to values not exceeding 40 per cent. of 1942. Price changes which might nullify the effect of these limitations had been prevented; the restrictions in the processing and repairing trades were also valued by the Ministry. In general, Germany had not only been deprived of valuable supplies but would be unable in future to rely on Switzerland to assist in making good the damage caused by bombing.

(iii)

Reduced ties with Germany

As Switzerland moved with the rest of the continent toward the day of Axis defeat she had to listen to increasingly confident Allied demands for the final severing of her economic contacts with the enemy; without undignified haste she made the necessary adjustments. The most important event in this process was the Swiss embargo of 1st October 1944 on the export of war material to all belligerents; this was later extended to other products, although the Allied demands were not finally satisfied until March 1945. The year 1944 thus saw the achievement, in Switzerland as elsewhere, of the main aims of Allied economic-warfare policy, although only after the usual exacting negotiations.

The agreement of 19th December 1943 had left over a number of matters for further negotiation between the Allies and Switzerland, but before these could be resumed the Swiss had to renew their agreement with Germany of 1st October 1943, which expired on 31st December. On 3rd January 1944 a provisional agreement was made for one month, in order to give time for further negotiation. By this agreement the Germans were forced to accept for the month of January the reductions in Swiss exports provided in the agreement of 19th December 1943. Otherwise the German coal exports to Switzerland were to continue with the 50 francs a ton advances by Swiss importers; other German exports of raw materials—iron, steel, oil products, etc.—were to continue on the same basis as before. The German 'counter-blockade' and transit concessions were also to continue.

Switzerland's next problem was to secure Allied agreement to the

terms on which she would negotiate a longer agreement with Germany, to last until the end of June 1944. She wished to maintain the two essential features of the old agreement—the 50 francs a ton over-payment on coal deliveries, which gave the Swiss a credit towards deliveries over the next 15 years; and the system of guaranteeing payments to Swiss exporters up to 50 per cent. of each firm's 1942 exports. When the Allies objected that the first of these expedients facilitated Swiss exports to Germany, Professor Keller retorted that the only alternative was for the Swiss to pay 150 francs a ton for coal without the possibility of recovering the 50 francs over-payment later. The Ministry felt in December, just after Professor Keller's return to Switzerland, that the credit question had lost some of its importance in view of the wide range of export ceilings secured under the agreement of 19th December, and it wished to support the Swiss in their talks with the Germans, which were not likely to be very pleasant. Having secured American agreement therefore the Ministry told Professor Keller at the beginning of January that the Allies were agreeable to the continuance of the coal over-payment and to the guarantee of Swiss exports on a month-to-month basis. However, the Swiss argued that the guarantee on a month-to-month basis would result in a monthly increase in German indebtedness in the clearing of from 10 to 12 million francs, whereas they believed that if the agreement could be made for the period up to 30th June Germany could be persuaded to agree to half this amount, that is, that the rate of increase could be kept down to between 5 and 6 million francs. The State Department was, however, reluctant to agree to the Swiss committing themselves for several months ahead, and the Ministry discovered at the end of January that it had misunderstood the position: the figures quoted had been assumed to represent the amount of the guarantee, whereas it now turned out that they represented increases in German indebtedness.¹ Accordingly the Swiss

¹ The Ministry had drawn this conclusion from its discussions with the Swiss delegation in December, and from the reference to the transfer guarantee in Professor Keller's letter of 19th December, which said, 'Pending these negotiations [i.e. the resumed discussions with the Swiss delegation in London] the Swiss Government will not grant, apart from the above, any credits to Germany in the form of clearing advances or otherwise'. A Swiss memo., handed to M.E.W. on 8th February, gave the following particulars. 'a. For the second half of 1943, the Agreement with Germany of October 1st 1943 entailed a credit estimated at SFr. 100 Millions, i.e. about SFr. 18 Millions per month, in addition to the clearing credit of SFr. 850 Millions, provided for in a previous Agreement. b. The provisional extension for January 1944, involved a further amount of SFr. 10 Millions, as against a monthly average of SFr. 18 Millions for the preceding six months. c. For the five months covering the period from February 1st to June 30th 1944, an Agreement might now be reached on a basis of SFr. 5 to 6 Millions a month, as against SFr. 10 Millions for January.' The State Department suspected that the Swiss had given estimates of probable increases in indebtedness because they had had warning of some proposed decrease in German deliveries, to match which they could, if they chose, adjust their own exports either by manipulating the transfer guarantee or by other means. It felt, therefore, that, subject to further clarification, the Allies should continue to oppose any increase in indebtedness.

authorities were told that the question should be thrashed out in London when the talks with the Swiss delegation were resumed. The Swiss had to agree to this, but pointed out the urgency of an early decision, and therefore of a speedy resumption of the return of the delegation. Professor Keller left Berne on 11th February, and the other members of the delegation left for London during the next few days, all flying to Lisbon to await planes for England.¹

At the same time the Swiss Government asked for a speedy settlement of the Sulzer case. The British legation in Berne was also anxious for a settlement, partly because of some uneasiness over the State Department's attitude. After the firm's name had been published in the Statutory List on 30th October 1943 it was assumed that the name would appear in the next edition of the Proclaimed List, on 19th November. But the U.S. minister in Berne said that this would not be the case. The State Department, apparently as a result of strong pressure from the Swiss minister in Washington, sent a telegram to London early in November calling for a detailed exposition of the case and implying doubts as to whether the case for listing had been fully made out. F.E.A. protested against this action on 13th November, pointing out that the United States Government had already concurred in the decision to list the firm, and the State Department gave way; the name duly appeared on 19th November. But continued representations to the State Department suggested that the Swiss hoped to drive a wedge between the two allies.

Much indignation was shown in Switzerland at the publicity given in England to the firm's proceedings. A B.B.C. broadcast on 30th October described Sulzers' as an 'armament firm'. Mr. Foot gave the correct facts in answer to a Parliamentary question on 9th November. Lord Selborne, he said, accepted the firm's statement that it had refrained from exporting arms or munitions or submarine diesel engines, but regarded its other forms of manufacture as hardly less valuable to the Axis. On 1st December Professor Keller gave the Ministry his government's proposals for the limitation of Sulzers' exports of diesel engines,² which amounted to 1 million Swiss francs. This did not go far enough as it did not cover other classes of the firm's exports, and the Ministry's requirements were sent to Professor Keller a week later. When the Swiss objected to some of the

¹ The Swiss delegation were given instructions covering the following items of the Allied agenda of 30th September 1943: credits to Axis countries, transit by rail across Switzerland, trade with Japan, the compensation agreement, activities of Swiss banks, children relief. The Swiss Government wished to discuss the following additional items: opening of new blockade facilities for industrial raw materials; Red Cross exports; prevention of smuggling on vessels operating for Switzerland (Memorandum from Swiss legation to M.E.W., 27th January 1944). The Ministry added two items: the operation of the Agreement of 19th December 1943 and restrictions of Swiss exports for the second half of 1944 (31st January 1944).

² To Germany: 0.75 million francs each during fourth quarter of 1943, and first quarter of 1944; to other European Axis countries: 3.5 million francs during first half of 1944.

Ministry's provisions (such as the disclosing of the names of customers) the matter was referred for more detailed negotiation to Berne. The Ministry agreed to dispense with the names of customers provided that full descriptions of types of machinery were furnished, but at the end of January F.E.A. and the State Department were disappointed at Sulzers' offer with regard to the cutting down of exports for the first half of 1944, and asked for improvements. Revised Anglo-American proposals were then presented to the second meeting of the Sulzer committee on 15th February, and accepted in substance by the firm and the Swiss authorities at the end of the month. The final form of the undertaking was settled by 10th March between Keller and the British and American representatives in London. The name of the firm was omitted from the new edition of the Proclaimed List on the 11th, and of the Statutory List on 20th March. The State Department's announcement of the deletion was published in the Swiss press on 14th March, and from subsequent press comment it was obvious that the later listing and earlier de-listing of the firm by the United States authorities had strengthened the impression that there had been a divergence of views between the two Governments about the case.¹

Thus it had taken over four months for the firm, after appearing on the lists, to escape from them, and it may well have felt in retrospect that it would have been simpler to give the usual undertaking in October. The case had been described in some little detail, for it was the most important example of blacklisting—both in its publicity and political bearing, and in the effectiveness of the results—during the war. At an early stage in the discussions the Ministry had agreed to waive the demand for a bond, and the assumption by the Swiss Government of responsibility for the company's future conduct, while welcome to the Allies as a guarantee, was also a recognition of the company's special status. The impressive fact from the Allied point of view was that listing had proved so much more effective than the suspension of the food quotas. One essential feature of the agreement was that the firm had given an undertaking regarding its trade to the Swiss Government, and the text had then been communicated to the British and United States representatives at Berne with a declaration that the Swiss Government would ensure the adhesion of the firm to the undertaking. Another was that the undertaking was based on permitted exports by the firm to each enemy country, thus precluding, it was hoped, the recurrence of excessive

¹ This was no doubt unintentional on the part of the State Department, although the Ministry was convinced throughout that the Department, although willing enough to press the Swiss on other matters, had never liked the listing of the Sulzer firm. On 15th March Mr. Foot in reply to a Parliamentary question gave a brief account of the case in terms which were almost identical with the United States communiqué. It was hoped that this would make it clear that the two Governments were acting in closest cooperation.

deliveries. The approved export programme covered the period to the end of June 1944, and provision was made for further agreement on the limitation of exports during the second half of the year.¹ The export figures allowed to the firm for the half year ending 30th June 1944 were as follows, it being understood that not more than 50 per cent. should be exported by the company before 15th March 1944.

Annex to the Agreement of 17th March 1944

*Messrs. Sulzer Bros. Ltd.
(Swiss francs)*

<i>Merchandise</i>	<i>Germany</i>	<i>Occupied Countries²</i>
Castings	224,200	25,850
Steam and other boilers, etc.	250,000	2,000,000
Condensed milk apparatus	—	56,500
Refrigerating plants	40,000	244,000
Textile machinery	—	15,867
Pumps and fans	30,000	800,000
Steam engines	16,000	152,450
Diesel engines	750,000	2,837,585
Air compressors	85,000	22,200
	<u>1,395,200</u>	<u>6,154,452</u>

The settlement of the Sulzer case was accompanied by the Allies' acceptance, after discussion with the Swiss delegation in London, of the Swiss request for freedom to negotiate an agreement with the Germans to cover the period until the end of June. The State Department agreed to this on 7th March on condition that the increase in German indebtedness should not exceed 40,000,000 Swiss francs.³ The Allied representatives also objected to the exclusion, or partial exclusion, of invisible exports to Germany from the Swiss attempts to balance the clearing. Before the war German deliveries had sufficiently exceeded Swiss deliveries to cover the invisibles, but during the war the export of goods had been approaching equality on each side. This largely accounted for the German indebtedness. Mr. Dingle Foot pointed out that the Swedes had successfully insisted that the Germans must not only balance their payments in future, but must increase deliveries in order to start repaying past credits; he felt that the Swiss, whose export of finished machinery was of

¹ The normal standard undertaking precluded dealing with all enemy countries during hostilities. The special Sulzer undertaking had separate clauses, one precluding exports to European countries save as provided in the annex to the agreement, the other precluding trade with Japan, without the prior consent of the Mixed Commission, until the conclusion of hostilities in the Pacific. It was made clear to the Swiss Government that the acceptance of separate clauses involved no commitment by the Allied Governments to allow Sulzers to trade without restriction with enemy countries after the signature of an armistice.

² Belgium, Bulgaria, Denmark, Finland, France, Greece, Holland, Hungary, Norway, Rumania, Slovakia, Yugoslavia.

³ Making a total of 990,000,000 francs (including 850,000,000 under the 1941 agreement, and 100,000,000 under the October 1943 agreement). M.E.W. first proposed 30,000,000 increase in indebtedness, but the Swiss delegation insisted on 3rd March on the higher figure.

great short-term importance to Germany, should be able to achieve the same success in balancing payments.¹ The United States authorities in Washington also were pressing during March for reductions in electrical supplies by Switzerland to Germany, and for the reduction of facilities for transit traffic. The fact is, however, that the Allied Governments were already contemplating very much more comprehensive demands, and were mainly concerned in March and April in clearing off as many outstanding subjects as possible before launching the new campaign. The timing of this was presumably linked with the forthcoming invasion of France, and the progress of the Italian fighting.

In the meantime the Swiss had concluded what the Ministry could consider a satisfactory clearing agreement with Germany for the first half of 1944; details reached the Ministry during the last days of March. Above all, no new credits had been given to Germany; the Swiss laid great stress on the fact that there had after all been an increase in German indebtedness in the clearing beyond the 10,000,000 francs for January. Furthermore, in a memorandum sent to the Ministry on 27th March, it was stated that the Swiss Government did not intend to grant any new credits for the period after 30th June 1944; but whatever the circumstances it would first consult the Allied governments. Swiss exports for the first half of 1944 would be about 30,000,000 francs a month. There was no change in the quotas for Swiss exports to the United Kingdom and the Empire, but exports of watches and watch parts to blocked dollar countries was to be allowed up to 100,000,000 Swiss francs. The Germans allowed five further *tranches* of one month under the Compensation Agreement and the Swiss believed that the Germans would apply transit permits and similar methods of control in a fairly reasonable spirit. Swiss imports of German coal were to remain at 150,000 tons a month at the same price, including the advance of 50 francs per ton. Imports of iron were to be slightly increased. Imports of seed and the export of cattle were not covered by the agreement but were to continue on the same basis. Germany had agreed to allow Greek ships to use Marseilles. The question of the transit traffic had not been discussed as the question was being handled by the political departments. There would be no substantial change in electrical exports to Germany.

The more stringent Allied demands were made formally to Professor Keller by Mr. Foot and Dr. Riefler on 10th May. They concerned the Swiss export figures for the second half of 1944, and there

¹ Cf. p. 475. The Swiss might have argued that the similarity was not complete as far as details of the payments were concerned. In Sweden's case, most of the invisibles were on account of freight; in Switzerland's, the greater proportion were on account of such items as interest and royalties.

had indeed been 'informal' conversations on the same matters for some weeks, so that the Swiss delegation presumably had some inkling as to what was coming. On 23rd March they had offered a 15 per cent. reduction on the main items in Group I of the December agreement (arms, ammunition, ball- and roller-bearings, machine tools, and fuses).¹ During April the Allies had deliberately deferred discussion on these and similar important commodities until it was known what concessions the Swiss were prepared to make on the less important items. The broad effect of the new proposals was as follows. Exports of Group I items (of the December agreement) should be reduced to nil (as compared with the Swiss proposal of a reduction to 15 per cent. of 1942); Group II items to 15 per cent. of 1942, as against the Swiss proposal of 25 per cent.; Group III items to 30 per cent., as against 40 per cent.; Group IV items to 35 per cent. as against 50 per cent. The reduction for Group IV applied to the total for this group but the ceilings for each individual item would remain the same. Fixed quotas were to remain as suggested by the Swiss and concessions were included to permit the export of twelve shunting locomotives and certain flour milling machinery and some thermometers. There was to be no export of piston rings. The Allies would prefer to embody these changes in a new comprehensive agreement instead of continuing the December agreement in a revised form. In return, they were prepared to recommend to their governments, (a) the continuance of the food and fodder quotas, and the opening of new quotas for a large range of raw materials; (b) the continuance of the Swiss Government's export guarantee and 150 francs payment for coal; and (c) modification of the December agreement in connexion with the repair trade and the transfer of quotas, subject to the settling of certain details.

Professor Keller's immediate reaction was quite unfavourable; he said flatly that it was impossible for the Swiss Government to improve on the offers already made. He was vigorously pressed, particularly on the question of ball-bearings, but was completely adamant: he insisted that these exports were in any case already negligible. He was also unable to throw any light on his Government's policy with regard to looted gold, which had been the subject of a declaration by the British Treasury in February.² The complete refusal to recognize the possibility of any modification of the offer of 23rd March surprised the Allied representatives, who knew, for example, that by their negotiations with S.K.F., ball-bearings exports for the second half of 1944 would be very much less than the ceiling figure given on 23rd March. Professor Keller reluctantly agreed that the Allied proposals must be referred to his Government, and that this

¹ See p. 514, n. 1 above.

² See p. 623 below.

would have to be done through the Allied legation in Berne, owing to the temporary Allied ban on cypher communication (except through Allied official channels) between the United Kingdom and the Continent, in anticipation of D Day. As the Swiss delegation was thus unable to communicate secretly with its Government the ban meant, in effect, the transfer of the negotiations to Berne. It also meant that the Swiss Government, in no hurry to act, had a ready-made excuse for delay. The Allied legations sent identical letters to Dr. Hotz on 25th May setting out the Allied proposals.

A long tussle followed; agreement was not reached until 14th August. The demand for a general agreement and for the complete prohibition of the export of bearings, arms, ammunition, and fuses came from the United States, and the Ministry had at first doubted whether the Allied position was quite strong enough at this point to carry the latter demand. The deliberation with which the Swiss handled the proposals perhaps bears this out. The Ministry, nevertheless, accepted the view that at this stage of the war it was best to set the sights as high as possible.

The agreement of 14th August was merely an exchange of letters with the Swiss delegation in London providing that the agreement of 19th December 1943 should be continued; in return the Swiss Government agreed to some further reductions in Swiss exports to the enemy. This was not very satisfactory to the Allies, who did not agree to open quotas of industrial raw materials for Switzerland. The Swiss delegation was warned that it must expect fresh demands at any time for 'further reductions in, or a complete embargo on, certain or all Swiss exports to the Axis'. Allied pressure was, in fact, soon renewed. During October the Swiss Government claimed to have made some further reductions in exports; the export of arms and ammunition, aircraft parts, bearings, fuses, and other military supplies was prohibited from 1st October, but locomotives continued to be sent to Germany. The use of the Simplon route was prohibited to transit traffic at the end of the month, but the Gotthard route remained open. During November the advance of the French armies cut the main line to Basle, with corresponding reductions in transit traffic between Germany and northern Italy and in German deliveries to Switzerland. The Swiss were urged to complete their disentanglement from connexion with the Germans before the Allies made more peremptory demands.

But M. Pilet-Golaz moved as usual with considerable deliberation, and told the British and American ministers on 30th October that he earnestly hoped that he would not be pushed too far and too fast. He argued that if Switzerland were to carry out her duties as protecting power satisfactorily and play her part in relieving the needs of the suffering populations in occupied territories she could not

adopt the strictly negative attitude towards Germany in economic matters that was implied in the Allied demands. The State Department was not impervious to this argument, and the matter rested for some time, while the Swiss sense of isolation among the rapidly advancing Allied armies increased, and the Allied Governments were rehearsing new demands for the elimination of Switzerland as a safe haven for Axis gold and loot. The final phase in the Swiss negotiations did not begin indeed until January 1945, with the mission to Berne of Mr. Dingle Foot and Mr. Lauchlin Currie.¹

¹ See below, pp. 620-2.

CHAPTER XVIII

TURKEY

(i)

Adana and after

It is one of the paradoxes of the blockade that Britain's two European allies, Turkey and Portugal, were the least accommodating—even in the last phase of Allied ascendancy—of the five European neutrals. There was some tendency in both cases to grant economic favours to the Axis in order to balance political agreement with Great Britain. Turkey's political outlook in the last two years of the war seems, however—in so far as it was determined by any one factor—to have been increasingly dominated by her traditional fears of future Russian policy. As the Soviet armies moved towards victory and the possibility of German attack on Turkey faded, the Turkish Government's main interest, apart from keeping out of war, seems to have been the securing of arms from both sides, and the nursing of these still slender resources as long as possible. As a result she showed more stubbornness than Sweden or Switzerland in refusing to modify her existing war-trade arrangements with Germany, while at the same time she continued throughout 1943 to discuss with apparent seriousness the terms of her forthcoming entry into the war on the Allied side. This situation suited the Germans; Hitler was quite satisfied that in exchanging surplus armaments for such valuable materials as chrome and copper he was having the best of the bargain, and Papen showed good timing (aided after October 1943 by intercepted British embassy correspondence) in mixing assurances of Germany's goodwill with dire threats of instantaneous reprisal if Turkey entered the war.¹ The United States authorities, who would not have been averse to economic pressure on Turkey in 1941 and 1942, were showing some inclination by the end of 1943 to accept the perennial Turkish pleas of insufficient rearmament.² The British, satisfied that at this turning point in Near

¹ Cf. Hitler's comment to Speer on weapon exports: Speer (Hamburg) Documents, 8th December 1943. Franz von Papen, *Der Wahrheit eine Gasse* (Munich, 1952), pp. 578–84. L. C. Moyzisch, *Operation Cicero* (London, 1950), p. 28.

² During the Cairo talks (4th–6th December 1943), 'Roosevelt frequently betrayed a considerable amount of sympathy for the Turkish point of view, and even stated, on one occasion—and this is set forth in the solemn record—that it was quite understandable that these distinguished and amiable gentlemen should "not want to be caught with their

Eastern history they were at last backing the right horse, were rather stubbornly convinced during the last months of 1942 and throughout 1943 that they were in the process of bringing Turkey into the war.¹

These political and military considerations governed the economic situation. The essential economic-warfare problem was again the position of Turkish chrome exports and the attempt to limit the export of this and other commodities by pre-emption and any other practicable means. With the tide of war running steadily in their favour the Allies could have afforded to stiffen their demands and hold up supplies. But in the erroneous belief that more could be secured by persuasion, no such pressure was exerted until February 1944.

The most notable of the efforts to arrive at a satisfactory political and military understanding with Turkey in 1943 was the visit of Mr. Churchill to Adana on 30th and 31st January 1943, when he was received by President İnönü and his ministers. The discussions between the Turkish and British statesmen and experts covered a wide field, and as far as economic-warfare matters were concerned the importance of supplies which would help Turkey materially to consolidate her own defensive security was fully recognized. Sir Hughe Knatchbull-Hugessen, the British ambassador, told a press conference on 2nd February that the primary object of the meeting had been to render her more self-reliant and better able to resist German pressure. It was generally assumed that the visit had greatly improved relations with the Turkish Government, and in these circumstances the Foreign Office would not agree to any threat of sanctions with regard to supplies to Turkey.² At an interdepartmental meeting in London on 24th February 1943 the Foreign Office representative suggested that the correct method of approach, in view of the better atmosphere created by the Prime Minister's visit, was to tell the Turks frankly what the Allied requirements were: 'Our relations with the Turks were now such that we could talk to them, it was thought, in this avuncular fashion with a certain amount of confidence that our requests would not be entirely unheeded.' This optimistic assumption led to the postponement of 'sanctions' for another twelve months.

pants down" (R. E. Sherwood, *The White House Papers of Harry L. Hopkins*, ii, 791). The American unwillingness to open up the war in the Balkans has to be borne in mind at this point. John Ehrman, *Grand Strategy*, V., pp. 88-103, 193-5, 221, discusses the Turkish problem in the general setting of Allied strategy.

¹ There is a good survey of the political and military background in *The War and the Neutrals, Survey of International Affairs 1939-1946* (Oxford, 1956), pp. 354-66, by G. E. Kirk.

² W. S. Churchill, *The Hinge of Fate* (London, 1951), pp. 630-7. Cf. Knatchbull-Hugessen, *Diplomat in Peace and War*, pp. 185-90. The Germans were not perturbed (Papen, *op cit.*, p. 561), although there was speculation in the German embassy as to whether the Turks, while wanting the defeat of Russia, were not playing 'a perfidious game' towards Germany (Sieler to G.F.O., 9th December 1942, *German Foreign Office Documents: German Policy in Turkey, 1941-1943* (U.S.S.R., 1948), no. 35).

(ii)

Chrome and the Clodius Agreement

The Clodius agreement was due to expire on 31st March 1943. The chief concern of the Ministry during the early months of 1943 was either to prevent the renewal or to render a renewed agreement innocuous.

A Turco-German credit agreement was signed on 31st December 1942, providing for the delivery to Turkey of RM.100,000,000 of war material, of the same standard as that used by the German army, over a period of ten years. Turkey in return was to supply Germany with Turkish products for the value of armaments received in each six-monthly period; the products to be selected would be those figuring in List 1 of the Clodius agreement. Quantities and values were to be fixed by the joint Turco-German commission appointed under the Clodius agreement.

It will be convenient to consider first the position with regard to chrome purchases during 1943, and then to examine the position of other commodities. Chrome continued to have high value on both pre-emptive and supply grounds. In the hope of limiting exports to Germany, which were due to commence under the Clodius agreement after 15th January 1943, the Allies conducted prolonged negotiations with Turkey during the last months of 1942. Under the terms of the Clodius Agreement 45,000 tons of chromite were to be sent to Germany between 15th January and 31st March 1943, on condition that £T55,000,000 of German materials, cited in 'Schedule 1A' of the agreement, were delivered to Turkey. If the £T18,000,000 of war materials included in Schedule 1A had been delivered to Turkey by 31st March 1943, arrangements for further chrome deliveries could be concluded, allowing Germany to import an additional 45,000 tons in 1943 and 90,000 tons in 1944. The Allies, while accepting willy nilly Germany's right to the chrome specified in the agreement, naturally sought to impede deliveries outside the strict letter of the agreement. Towards the end of October 1942 M. Menemencioğlu, now the Turkish Foreign Minister,¹ told British representatives that no agreement concerning the 135,000 tons for 1943 and 1944 would be signed with the Germans until the entire £T18,000,000 of war material had been delivered, and he promised that an attempt would be made to maintain this position if Germany raised objections. This meant, however, that in spite of

¹ He had succeeded M. Saracoğlu on 13th August 1942 on the latter's appointment as Prime Minister.

repeated statements that chrome would not even be discussed in the negotiations with the Germans, the Turks intended to let the Germans have the full 180,000 tons in exchange for arms. The Ministry remarked indignantly that the Turks had 'at last come into the open and revealed the full extent of their duplicity'.

The chance of purchasing the maximum quantity of available stocks was, however, as usual, very largely a question of price. We have seen that under the 1942 agreement the British Government had secured the right to purchase the entire production of chrome ore in Turkey during 1942, together with all stocks on the ground at the date of the termination of the contract (8th January 1943). The basic price had been fixed at 140s. a ton f.o.b., with a sliding scale for Cr₂O₃ content above and below 48 per cent. During the summer of 1942 the British authorities had become convinced that Turkey was not declaring her full production, and it seemed that her undeclared stocks at the end of the year might be substantial. As the price in the first German contract for deliveries in 1943 under the Clodius agreement was understood to be 275s. a ton of 48 per cent. content it seemed probable that the Turks were holding back stocks both in order to get this higher price and in order to meet their commitments to Germany in 1943. On the other hand, if the Allies secured every ton of ore above ground on 8th January 1943 the rate of Turkish production would make it difficult for the Turks to complete their obligation to Germany, and impossible for them to do so punctually. It was accordingly decided in September 1942 to offer the same fantastic price as that offered by the Germans. The Allies were prepared to buy all chrome ore hitherto undeclared, whether already in stock or newly produced, between 25th September 1942 and 8th January 1943, at the same sliding-scale price as that offered by the German Government for chrome purchases under the Clodius agreement, namely, 270s. (£T70·30) per ton for 48 per cent. ore, plus 8s. a ton or minus 6s. a ton for each degree respectively above or below that grade. In return for this concession over price the Turkish Government was asked to give the following undertakings with regard to chrome produced after 8th January 1943:

1. For every ton of ore delivered to the Germans between the 8th January 1943 and the 31st December 1944, in virtue of the existing obligations of Turkey under the Clodius agreement, as signed on the 9th October 1941, a ton of equal grade and accessibility shall be delivered *pari passu* to His Majesty's Government at the above mentioned price offered by the German Government. This means that His Majesty's Government during that period shall receive as much ore as the German Government.
2. All surplus ore after the completion of the deliveries in (1) above,

mined between the 8th January 1943 and the 31st December 1944, shall be reserved for His Majesty's Government.

3. Turkish Government will not refuse to sell to us or to issue to us export licences for chrome on the ground of any hypothetical obligation to deliver chrome to Germany against some future delivery of war material or goods by Germany to Turkey.

In the note the British Government also offered to purchase the whole of the Turkish chrome output for three years starting from 1st January 1945, or for the duration of the war and one year after, whichever was the less.

M. Menemencioğlu agreed on 11th December to the sale to the British Government of all chrome produced before 8th January 1943, and to the increased price after 25th September; inspectors were to be permitted to visit mines, dumps, stations, and ports to prevent pilfering. He also agreed to cooperate over transport, but reserved a maximum of 45,000 tons to meet prior commitments towards other countries. With regard to the proposals for chrome produced between 8th January 1943 and 31st December 1944 he affirmed that *pari passu* treatment with Germany could not be granted to the British to the detriment of any previous Turkish undertaking towards other countries. Subject to these conditions, however, all chrome not covered by an existing contract would be delivered to the British Government. Finally, the Turkish Government had decided not to make any new agreement with regard to chrome produced after 1st January 1945, but promised that should this decision be reversed the British Government should have the first offer of a contract. On 21st December 1942 these letters were accepted by the British Government as the basis of Anglo-Turkish arrangements regarding the disposal of chrome.

This was on the whole satisfactory; the British had made it quite clear that they expected to obtain any chrome in 1943 and 1944 that the Turks were not absolutely obliged to hand over to the Germans, although they had found it impossible to persuade the Turks that German claims to chrome should lapse if the conditions of the Clodius agreement were not fulfilled by 31st March 1943.

Negotiations with the Eti Bank over price went on throughout the first three months of 1943. Eventually on 16th April a new purchase agreement for the period from 8th January 1943 to 31st December 1944 was signed in Ankara; the price was to be 270s. a ton with an upwards and downwards scale of 8s. and 6s. respectively for each degree above and below 48 per cent. This was finally accepted by the British Government on 19th May. In a note of 25th May to the Turkish Foreign Minister the ambassador expressed the regret felt by the British Government that this agreement did not prohibit the

reservation of chrome against hypothetical deliveries of war materials by Germany, and said that his Government 'felt bound to make it quite clear that it was unable to agree with the view that chrome should at any time be held in reserve for the Germans, merely in case they might ask for it at a future date'.

Meanwhile, in spite of the fact that at great cost the United Kingdom was supplying extra railway equipment to Turkey, little chrome was being moved to accessible ports for Allied use and shipments had to be made entirely from stocks already at the ports. Owing to the decreasing likelihood of a German attack on Turkey there was now less urgency about removing the chrome stocks from Turkey in order to keep them out of enemy hands, but the United States still needed the high-grade ore and in addition the British were more than £3,000,000 out of pocket over their purchases. There were various other difficulties in connexion with the loading of chrome in Turkish ports. As the higher grades in these stocks became exhausted the British were obliged to ship a higher percentage of lower grades and this resulted in the lowering of the average grade of shipments to the United States. Instructions were sent to the Eti Bank that grades below 46 per cent. were not to be shipped, but 'whether deliberately or otherwise, they pay scant attention'. This produced further difficulties. In some cases it proved quite impossible to arrange separate stowage for different grades available for shipment. The work of determining grades was normally carried out by Mr. Wardlaw Ramsay, the Chrome Controller's representative, but he went to Cairo for four months in December 1943. It was extremely difficult for the British embassy, which was badly understaffed, to arrange for the constant supervision which would prevent either delays in sailings or the despatch of ships with partial loads. Arrangements for chartering could be discussed in urgent cases only by telephone conversations with Istanbul, and as this was a 'contiguous neutral country swarming with enemy agents' it was impossible to discuss the movements of ships by telephone. However, by 18th March 1944 there was no more high-grade ore in accessible ports in sufficient quantities to justify further loadings so that the existing unworkable conditions were temporarily at an end.

Germany duly received supplies of chrome during 1943 under the Clodius agreement, although by no means all that she had bargained for. By 31st March 1943 she had supplied only a portion of the £T18,000,000 of war materials, and she had received in consequence only a portion of the 45,000 tons of chrome which she would otherwise have been entitled to receive by 31st March. As arrangements for further deliveries of chrome could, according to the Clodius agreement, only be made if the requisite war materials had been delivered by Germany before that date, the Turkish Government

had its opportunity of refusing further supplies if it wished to do so. In spite, however, of British and American pressure a new Turco-German trade agreement was signed on 18th April 1943. The chrome provisions of the Clodius agreement were extended to 31st December 1943, thus giving the Germans an additional nine months to make the deliveries on which chrome allotments would be based. Although this situation was annoying to the Allies there were certain mitigating features. British and American representatives received many verbal assurances from Turkish officials and business men that every effort would be made to impede the transportation of chrome ore from the mines to Germany. On 2nd December 1942 Mr. Wardlaw Ramsay had written that during the previous few days he had discussed with the Eti Bank ways and means of rendering the Clodius agreement as inoffensive as possible, and 'I can assure you that some of the ideas put forward are diabolical in their cunningness'. He promised that results during the first quarter of 1943 were likely to be highly satisfactory 'not for the Germans but for the British Government'. It was certainly true that actual shipments to Germany between 15th January and 31st March were small; apparently only 1,000 tons of chrome left Turkey for Axis destinations during this period.

There was, nevertheless, little ground for regarding these complicated Turkish games with much satisfaction. Chrome shipments had always been light during winter months owing to snow and bad weather, and Germany's difficulties were due in part to the fact that since all the stocks above ground on 8th January 1943 belonged to Great Britain the Germans were forced to rely solely on new output, which was generally small during winter months. In the second quarter of 1943 exports to Axis Europe greatly increased, and it was believed that about 13,500 tons had left by the end of June. By October Germany had delivered almost the full R.M. 100,000,000 of war materials. By 31st October approximately 30,700 tons had been sent from Turkey to Germany, and by the end of the year 1943 some 46,783 tons had gone to Germany since 9th January. The rate of delivery, which had averaged a little over 3,000 tons during the first nine months, reached about 7,800 tons in November and 8,100 in December. In January 1944 exports to Germany exceeded those for Great Britain by four to one; deliveries from mines to ports on account of Germany were very nearly as high as those for Great Britain, despite the fact that Great Britain had over 300,000 tons in stock against which 80 per cent. payment had been made, whereas all deliveries for Germany should have been from new production.

(iii)

The joint programme

For purchases other than chrome the Ministry worked during the winter of 1942-3 on the joint U.K.-U.S. pre-emptive programme, which came nominally into force on 1st September 1942.¹ The position, with the distribution between the two corporations, was as follows in mid-February 1943.

Joint Pre-emptive Programme, 1942-43
(mid-February 1943)

	<i>Target figure (tons)</i>	<i>Export Licences to date (15.11.43)</i>	<i>1941-2 Purchases</i>
U.K. Wool	3,000		
„ Skins	4,600	3,000	2,500
„ Mohair	5,000	2,800	2,500
„ Vallonia	20,000	10,000	10,000
„ Valex	5,000	2,000	2,000
„ Silk and silk waste	150	{ 152½ 36	
„ Hemp	4,000	2,000	
„ Flax	2,000	600	
„ Olive oil	5,000		5,000
U.S. Copper	8,000	2,000	
„ Antimony	900	215	
„ Woollen rags	2,500	250	
„ Cotton waste, rags and clippings	1,800	100	
„ Linseed	2,000		

The figures include some purchases for which export licences had been issued prior to the presentation of the joint programme to the Turks, and a few purchases for which export licences had not yet been issued. The total estimated value of the U.K. target figures was £8,405,000, and of the U.S. figures, £2,285,000.

But it was impossible to dodge for long the nagging question: had the programme any real blockade value? Although the export licences allotted to the British Government by the Turkish Minister of Commerce compared favourably enough with the 1942 purchases, they would clearly not prevent the renewal of the Clodius agreement. In other words, the Turks had so adjusted the allocations to the Allies as to retain sufficient quantities to meet their present and possible future commitments to the Axis. It might perhaps be possible to secure control of a wider range of Turkish exports in a comprehensive trade agreement; but there were a number of reasons why

¹ See p. 245 above.

any such agreement would in practice be difficult to implement. (1) The monthly quota of shipping space for shipments from the U.K. to Turkey had been reduced from 3,500 tons, first to 1,750 tons and then to 1,200. Supplies from other parts of the sterling area—jute from India, wool from Australia, cereals from Canada—were not affected, but a considerable reduction of civilian supplies from the sterling area could be anticipated. The purchasing power resulting from these supplies was the chief means of making pre-emptive purchases. (2) The increased supplies of armaments and defence materials foreshadowed by Mr. Churchill's visit would, in view of the limitations of shipping space and port facilities, reduce civilian supplies still further. Moreover, the armaments would be supplied under the Armaments Credit, which would not help to feed the Special Fund, through which the bulk of the pre-emptive purchases were made. (3) The Turkish capital levy. Particulars of assessments for an extraordinary 'tax on wealth' had been published in Turkey in December 1942; the total amount assessed for the whole country was about £1500,000,000 of which about two-thirds were to be paid by Istanbul. This would undoubtedly cause a contraction in the amount of Turkish pounds which would accrue to Great Britain in the Special Account during 1943. A high proportion of U.K. exports to Turkey represented private trading, chiefly in miscellaneous manufactured goods, with Turkish importing firms. The U.K.C.C. insisted on a 50 per cent. cash deposit before shipment, and it was certain that the restriction of capital resources among commercial firms in Istanbul and Izmir, who belonged mostly to the minorities and had been savagely over-assessed, would prove a severe brake on British exports.¹ (4) The very heavy tonnage, which the Turks had made available to the British on the expiration of the chrome agreement on 8th January 1943, might prove to be a boomerang as far as pre-emptive power for other products was concerned. It was estimated that the chrome stocks would cost nearly £4,500,000. 'This sum is more than four times what is required for the loan service of the Commodities Account, through which payment for chrome is effected, and the Turks may well insist on transferring a considerable sum to the Special Account. This would mean that chrome payments, instead of being balanced against loan service, would eat into pre-emptive expenditure to the extent of £2/3 millions.' (5) Finally, and perhaps most important, was the constant brake on British purchasing power due to the delay of the Turkish Government departments in paying their debts, principally for cereals, to the U.K.C.C. These overdue debts amounted in February 1943 to between three and four million

¹ Moslem merchants paid an average of 5 per cent., Greeks 156 per cent., Jews 179 per cent. About 1,500 persons, nearly all Christians and Jews, were sent to hard labour in detention camps for defaulting on the assessment. *The War and the Neutrals*, *op. cit.*, p. 358.

pounds. The only hopeful fact to set against all this was the readiness of the Turks to accept a certain amount of free dollars.

Thus the case for continuing pre-emptive purchases on the existing lines was not very convincing. It could be said that the pre-emptive policy had given Turkey a bargaining weapon against Germany; that in certain cases, as for example mohair, the Allied purchases had skimmed the better qualities off the market; and that, in all cases where pre-emptive buying had been attempted, competition had kept prices up and so reduced the quantities that Germany might otherwise have obtained. And yet it was difficult to say whether pre-emptive activities had been successful in denying the Germans any commodities that they really needed. Accordingly, it seemed better to do what had been done with chrome, that is, to concentrate on attempts to purchase the entire surpluses of a few selected commodities of high pre-emptive value. It was hoped, however, that in view of the greatly improved relations between Turkey and Great Britain that were assumed to have resulted from the Prime Minister's visit, the Turkish Government would fall in with a frankly-stated, avuncular-style request that a large proportion of the exportable surplus of certain commodities vital to Germany should be reserved for the Allies, and that in no circumstances should definite commitments respecting these goods be entered into with the Germans. A telegram was sent to Ankara on 3rd March 1943 suggesting that the British and American ambassadors should make a joint approach to the Turkish Government on these lines as soon as possible. But the results, as the two ambassadors had expected, were disappointing; the Foreign Minister would make no promises, and said that in effect Turkey was being asked to abandon her neutrality. Negotiations with Clodius would, however, be spun out for as long as possible and exports prevented by indirect means, as he claimed had already been done in the case of chrome.

The British and American representatives in Ankara had been thinking on very much the same lines as the Ministry in London, and had come to the conclusion by the beginning of March that further pressure was unlikely to produce any sensible increase in the Turkish allocations. After two Anglo-American meetings in Ankara it was therefore suggested to London that the Allies should concentrate on purchasing only those commodities in which Germany showed an interest, and that such purchases should be conducted on either an official, unofficial, or disruptive basis. After reviewing the whole position in the light of these recommendations the Pre-emption Committee sent a telegram on 7th April to Ankara and Washington outlining suggestions for a new policy. The main points were:

1. The joint programme was to be replaced by an arrangement under which each ambassador, after consultation with the other,

would have discretion to authorize the appropriate corporation to purchase certain specified commodities by any method he considered desirable and without limit of price. The total British expenditure, including purchases already made under the joint programme, was not to exceed £6,000,000 without further authority from London.

2. The discretion given to the ambassadors was to be expressly limited to purchases in which they were satisfied that there was a reasonable chance of purchasing such a proportion of the Turkish exportable surplus as would substantially reduce the quantities which the enemy was trying to acquire.
3. Apart from supply requirements the ambassadors should be guided in their purchases by the relative importance of enemy deficiencies as shown in the following three categories:
 - (a) copper, opium, mohair, skins, wool waste and wool rags, valex.
 - (b) waste silk, silk cocoons, cotton waste, rags and clippings, linseed, lambs' casings for catgut.
 - (c) hemp, flax, vegetable oils and seeds, vallonina. No purchases were to be made from category 3(c) out of British funds without reference to London.

These proposals, with their judicious mixture of official and unofficial buying, were welcomed on the whole by the State Department as giving more freedom to the British ambassador, although the Department was worried lest the British plan should involve a reduction in the total amount available for pre-emption, or be an attempt to restrict the activities of Mr. Steinhardt.

The United States ambassador, as we have seen,¹ had considerable funds for purchases outside the joint programme, and had been buying freely in the open market outside the official Turkish allocations, mainly in an attempt to force up prices. The Pre-emption Committee in London certainly looked on these activities with some misgiving, for it could not agree that they were as effective as the two ambassadors claimed, and there was a danger that the deliberate raising of prices, while not preventing the Germans from finally getting the goods they wanted, would aggravate inflation in the Middle East.

The new Clodius agreement, signed on 18th April 1943, made the Ministry even more sceptical about pre-emption in Turkey. The British ambassador was told on 21st April that the agreement provided for the supply by Germany of £T40,000,000 worth of goods of 'first importance'. He was able to send a copy of the full text of the agreement to London on 15th May. Clearly the Turks had seen to it that all the goods most needed by the Germans would be reserved for them. The agreement followed, with certain exceptions, the lines

¹ See p. 246.

of that concluded in October 1941; it was for a period of fourteen months (that is, until 31st May 1944), and it covered an exchange of goods during that period to the value of £T62,000,000. There were three lists. List 1A consisted of German goods to be exported to Turkey to the value of £T40,000,000; it included £T5,000,000 worth of war materials, together with iron and steel wares, copper products, pharmaceutical products, paper and cellulose, and beetroot seed. List 1 consisted of Turkish goods to be exported to Germany to the value of £T40,000,000. List 2 consisted of Turkish goods to be exported to Germany to the value of £T22,000,000 against 50 per cent. of goods figuring on List 1A (other than war material, copper goods, and beetroot seed), and 50 per cent. of German goods of other kinds. Details of the Turkish supplies were as follows:

Turkish supplies to Germany under the Clodius agreement (£T)

(18th April 1943)

<i>List 1</i>		<i>List 2</i>	
1. Mohair	2,650,000	1. Tobacco	8,000,000
2. Cotton waste	100,000	2. Raisins	2,400,000
3. Hemp	1,030,000	3. Figs and industrial figs	2,000,000
4. Flax	300,000	4. Hazelnuts	4,000,000
5. Silk waste	400,000	5. Other dry fruits	500,000
6. Wool and cotton rags	1,000,000	6. Casings	650,000
7. Opium	800,000	7. Liquorice roots and extract	500,000
8. Oil seeds	7,000,000	8. Gum tragacanth	4,000
9. Vallonia extract	275,000	9. Sponges	150,000
10. Gallnuts	272,500	10. Fruit pulp	4,000
11. Cotton	6,250,000	11. Fish of all kinds (tinplate to be supplied)	2,000,000
12. Copper	4,160,000	12. Various goods	1,000,000
13. Antimony	350,000		
14. Vallonia	437,000		
15. Skins	3,000,000		
16. Tobacco	4,000,000		
17. Hazelnuts	4,000,000		
18. Fish (tinplate to be sup- plied)	4,000,000		

In a protocol attached to the agreement orders placed under List 1A of the agreement of October 1941 were calculated at £T52,000,000 instead of £T55,000,000. The difference was to be deducted from the value of goods to be supplied to Germany under List 1. The quantities of chrome, copper, cotton, and olive oil delivered by Turkey had exceeded by £T6,400,000 the values assigned to these goods in List 1A and this difference would be met by the following deductions from the quantity of Turkish goods to be supplied to Germany: oil cake, £T2,250,000; cotton waste and silk waste, £T447,400; dried vegetables, £T3,037,526; middlings, £T250,000; rags, £T300,000; mohair, goathair, £T1,681,198; milk powder, £T250,000; olive oil, £T1,264,539. The olive oil quota, originally £T9,200,000 and now reduced by this deduction, was replaced by the following quantities: oil seeds, £T4,000,000; hazel nuts, £T3,935,461. The omission of olive oil was a notable feature of the agreement; it will be seen,

however, that Germany was to secure £T15,000,000 of oil seeds by the main agreement and in addition the further £T7,000,000 resulting from the replacement of the olive oil quota. There was no mention of chrome in the main agreement.

When it had digested the unpalatable details of the Clodius agreement the Ministry felt even less confidence than before in the pre-emptive campaign, in the existing circumstances. Germany could drive an effective bargain, for she could withhold supplies if Turkey failed to deliver the goods. But Great Britain could not withhold supplies as a bargaining weapon, because this would interfere with armament supplies and the possibility of Turkey's entry into the war. Moreover, the success even of a limited pre-emptive programme depended on Turkish goodwill, and the Ministry did not want to prejudice this by unauthorized purchases. And in any case, was Germany not guaranteed all she wanted? These pessimistic views were aired in a message to Washington at the end of May. The Ministry wanted to put an end to unauthorized buying, and to limit authorized buying to (1) goods needed for supply; (2) goods of pre-emptive but not of supply interest, where the official Turkish allocation was such as to afford a reasonable chance of securing a proportion of the exportable surplus large enough to affect enemy purchases. The Ministry obviously doubted whether the second case would ever arise. As everyone was agreed that pre-emption would not be effective without unofficial buying these recommendations amounted to a proposal to discontinue pre-emption in Turkey altogether.

But there was a dynamic of economic warfare which at this stage of the war made inaction, however logical, impossible, and the State Department could not reconcile itself to doing nothing. It was evidently taken aback by the British pessimism, although it could not deny the inadequacy of the official Turkish allocations. So Turkish pre-emption continued. The State Department was probably right in thinking that the Ministry was exaggerating the possible risks of unauthorized buying.¹ The result was that the Ministry agreed in July to continue the policy of giving the two ambassadors the wide discretion suggested in the telegram of 7th April. It was, however, finally agreed in September that since the Germans were entitled to fixed tonnages the alteration in the price level would have a nuisance value only, and that the Allies should abandon purely price-raising purchases.

¹ The Ministry itself was puzzled about this problem: it had been astonished to learn in April that the U.K.C.C. had debarred itself from unofficial purchases and that these were a breach of Turkish regulations. It asked the British embassy why, in that case, it had been making unofficial purchases for months past on behalf of U.S.C.C., and why it had recommended unofficial and disruptive, as well as official, purchasing in March. The reply 'could hardly be called a satisfactory explanation of our difficulty', but it confirmed absolutely that the U.K.C.C. were debarred from making unauthorized purchases.

The result was the 'new plan', final instructions for which, after agreement with the Americans, were sent to Ankara on 27th August 1943. £2,250,000 was put at the disposal of the British ambassador and the United States put up a similar sum. Both the U.K.C.C. and the U.S.C.C. were authorized to engage in official as well as unofficial purchases, and some alterations were made to the lists which now were as follows:

Category A. Copper, mohair, skins, valex, wool rags.

Category B. Cotton waste, rags and clippings, gallnuts, lamb casings for catgut, linseed, silk cocoons, and waste vallonina.

Category C. Flax, hemp, vegetable oils, and seeds.

The former arrangement by which each Government was responsible for the purchase of certain commodities was cancelled and in future all purchases were to be made jointly on a joint account. Profits and losses on all purchases were to be shared equally by the two corporations. A fortnightly report on general policy by the two ambassadors was to be made in addition to the more detailed U.K.C.C. report. An Anglo-American Purchasing Committee was formed in Ankara to coordinate purchases and make recommendations for future commitments, the members being the two ambassadors and representatives of the U.K.C.C. and the U.S.C.C. This 'new plan' was accepted in Ankara and put into operation from 1st September 1943. From then on no major changes in policy were made during the time that pre-emption continued in Turkey.

In October 1943 there was evidence that the Germans were speeding up their purchases in Turkey and were not buying or paying for commodities which could not be shipped before the end of November. The committee therefore concentrated on a short-term policy and avoided commitments beyond the end of the year as far as possible. By 13th October the U.K.C.C. had already exceeded the £2,250,000 originally allocated and more funds were required. On 29th October the embassy in Washington was told that only another £500,000 would be made available, since the British were faced with very large supply purchases in Turkey in addition to pre-emption. This sum was, however, quite inadequate and since both the Ministry and the United States authorities were agreed that pre-emption should continue 'for major political reasons', the Treasury agreed on 1st January 1944 to increase this amount to £1,000,000, but would make no promise that any further sums would be granted. On 12th March, however, Ankara reported that their estimated expenditure to the end of May amounted to £T12,000,000. The British Government were obliged to agree to share this amount with the United States but on 18th March a telegram was sent to Washington saying that the Government definitely could not undertake

any further commitments for the time being. As it happened, the Turks broke off relations with the Axis before this sum was exhausted and no further allocation was necessary.

During the period from May 1942 to the autumn of 1943 the two corporations in Turkey spent a total of £6,927,251 on pre-emptive purchases and under the new plan in 1944 a total of £7,142,265 was reached, before purchases ceased on 31st July 1944.

As an appendix to this unsatisfactory story we may note three examples of the awkward British efforts to link the supply of goods to Turkey with the diversion of similar supplies that were being made by Turkey to the Axis.

Copper. In March 1943, the Turks offered 500 tons of blister copper in return for the 800 tons of electrolytic copper which the British had supplied in 1942. The British asked in April that as the supply of electrolytic copper was a considerable strain on Allied resources the Turks should reciprocate with an undertaking to make blister available against electrolytic at the ratio of 1.25 to 1. Thus the British would receive 1,000 tons in 1943. The whole question showed the difficulty of making purchases in Turkey when it was impossible to use supplies as a bargaining weapon. In May the embassy suggested that for every ton of electrolytic sent to Turkey, which would presumably continue to be paid for out of the armaments credit, the Turks should give an export licence for 1.25 tons of blister at £T1,600. The negotiations dragged on during the summer; the Turks claimed that their commitments far exceeded stocks but offered 500 tons on condition that the British would defer their claim to further quantities. It was decided in October to take this 500 tons while it was available.

Mohair and wool. At the end of 1942 the Turkish Minister of Commerce offered the U.K.C.C. an export licence for 1,000 tons of mohair at a favourable price in return for 1,000 of Iraqi wool. It was at first thought that it would be impossible to meet this request, as the U.K.C.C. was under an obligation to sell all Iraqi wool to Russia. In April 1943, however, it was found possible to meet the Turkish request by supplying 2,000 tons of Indian wool instead of the 1,000 tons of coarse Middle East wool which had originally been asked for. Altogether Turkey would receive 4,000 tons of wool in 1944 and it was hoped that this increased supply of wool could be used to secure 2,000 tons of mohair over and above the allocation in the Joint Programme. This would mean a total of 3,400 tons of mohair, in addition to the carrying over of 700 tons from 1942. The Turks, however, stated that they could not increase the mohair allocation owing to their allocation to other countries; they described the suggested wool-mohair exchange as a personal one which could not be regarded as binding. The British ambassador was instructed

to take a strong line on this issue, and the Ministry suggested holding up further shipments of wool. But the Foreign Office was unwilling to agree to this on the ground that some at least of the wool was required for military uniforms. In August 1943 the Turks at last made a partial concession by agreeing to increase the mohair allocation from 1,400 to 2,400 tons.

The third case is that of the very unsatisfactory state of affairs which came to light in November 1943 over *opium and atebriane*. The British embassy had secured an option on Turkish opium, and this appeared to have been confirmed by the Turkish Government. However, the Turks wanted slightly over 100,000,000 tablets of atebriane in 1943, and there was no doubt that the Allies had failed to supply these, although they did not agree with the Turkish claim that only 18,000,000 had reached Turkey. It was, nevertheless, true that Turkey was desperately short of quinine or its substitutes, and accordingly she turned to Germany for supplies. Two compensation deals were made involving the supply of over 80 tons of opium to Germany, and a third arrangement was being negotiated in November which would involve the supply of a further 70 tons. The Turks made it clear that the option which they had apparently granted to the British was in their view merely an offer which, now that circumstances had changed, they considered no longer operative. All the Allies could do to meet this situation was to endeavour to increase the supply of atebriane to Turkey.

The broad fact was that pre-emption and the other Allied blockade weapons had failed to break the Turkish trade agreements with Germany. Although the fortunes of war were turning more and more obviously in the Allies' favour during 1943 there had been no diminution in Turkish supplies to Axis countries. The most important commodity, both in value and in volume, was chrome ore, but there were substantial exports of other goods in 1943. These included, according to figures collected by M.E.W., the following:

Turkish exports to Axis countries in 1943
(metric tons)

Chrome ore	. . . . .	46,783
Oil seeds	. . . . .	17,942
Fish	. . . . .	17,597
Tanning materials	. . . . .	13,756
Cotton	. . . . .	10,247
Pig iron	. . . . .	9,508
Copper	. . . . .	7,384
Dried fruits	. . . . .	6,445
Skins	. . . . .	2,894
Vegetable oils	. . . . .	2,068

Cotton waste	1,554
Mohair	1,438
Iron and steel ingots	966

Turkish policy had not therefore varied, in its essentials, since the beginning of the war. Turkey desired an Allied victory; in this sense she had remained faithful to the treaty of alliance with Great Britain. But she had tacked a little before the Nazi storm in 1941, and the trade concessions that she had then made to Germany had been received with nothing more serious than the grave reproaches of her ally in 1942 and 1943. Business with both sides was a profitable form of neutrality, profitable not only in trade but in arms, and the attractions of neutrality had apparently been increased by a growing desire to husband her resources against possible future trouble with a triumphant Russia. Moreover her rearmament, although greater in British eyes than the Turkish Government was prepared to admit,¹ was certainly not extensive enough to make her immune even from a German side thrust in 1943 (such as a few devastating raids on such highly-combustible cities as Istanbul and Izmir). The failure of the British operations (undertaken without American cooperation) in the Dodecanese Islands between September and November 1943 could not but cool still further any Turkish ardour for entry into the war.² On the other hand the willingness of the Turkish Government to continue military discussions with British experts kept alive the belief, based on what had seemed a tacit but definite understanding at Adana and the more constructive proposals of M. Menemencioglu at the Cairo conference from 4th–6th November, that she would enter the war before very long. Turkey professed to believe, and perhaps did believe, that Great Britain merely wished to use her territory without giving her genuine immunity from the consequences. Of course, no European belligerent could ever have this immunity in modern war. The final stage was a series of discussions with a British military and air mission from late December to early February 1944 which made no progress in view of continually increasing Turkish demands, demands designed more and more clearly it would seem to postpone action indefinitely.³ In the end the British certainly had the worst of the bargain: they did not bring Turkey into the war by their military aid and they lost the blockade battle through their unwillingness to threaten a cutting off of supplies.

¹ *Operations in the Middle East from 16th February 1943 to 8th February 1944* (London Gazette, 12th November 1946, by Sir H. Maitland Wilson), paragraphs 308–312; cf. *The War and the Neutrals*, *op. cit.*, p. 360, n. 2. Lord Wilson of Libya, *Eight Years Overseas, 1939–1947* (London, 1950), p. 187.

² Ehrman, *op. cit.*, pp. 88–99; W. S. Churchill, *Closing the Ring*, p. 296.

³ Knatchbull-Hugessen, *op. cit.*, 199–200; Ehrman, *op. cit.*, p. 221; W. S. Churchill, *op. cit.*, p. 362.

Hitler told Doenitz on 18th (or 19th) December 1943 that Turkey was cleverly trying to preserve her neutrality as long as possible.¹

In the economic field the Turkish Foreign Minister sometimes argued that Turkey was obtaining, in return for her exports to Germany, supplies which were strengthening her own ability to resist a German attack, and which would also deprive Germany of war material equivalent in value to the help that Turkish goods were giving to her war effort. She thought it good business to allow both sides to force up prices by bidding against each other, and she was not deterred by Allied arguments against the dangers of inflation, or by the serious discontent at home aroused by the cost-of-living crisis.

(iv)

Turkey goes to war

After the staff talks had reached a deadlock in January 1944 the military and air missions were withdrawn; their sudden departure from Ankara on 6th February was followed by the suspension of arms exports to Turkey. There was no breach of relations, and indeed no immediate announcement of a change in the Allied attitude. But the Ministry at last found its hands untied. The Foreign Office was now able to agree that the export of certain goods could be used for bargaining purposes. Washington was told on 7th February that supplies to Turkey of various commodities would be used to facilitate pre-emptive purchases, and that commodities such as copper, cotton, piece goods, and wool would not be supplied unless Turkey decreased her exports to Germany of similar goods. On 8th February, the attention of the Turkish Foreign Office was called to recent increases in deliveries of chrome ore to Germany, and the failure to replenish the chrome dump at Mersin, in spite of the large British stocks of chrome at Guleman and elsewhere.

A total stoppage of pre-emption was discussed, but the British and American ambassadors in Ankara were strongly opposed to this, on the ground that it would have no immediate effect on Turkish economy and would merely give Germany a free hand in the Turkish market. In accordance with the new policy no licences or navicerts were granted from this stage for cotton goods; the Turks were also informed that no electrolytic copper or copper manufactures would be sent from the United Kingdom unless they agreed to send in return the full quantity of blister copper which they owed in respect of electrolytic copper and manufactures supplied in the past. This

¹ *Fuehrer Conferences, 1943*, p. 148 (Brassey, p. 374).

ban was not at first intended to apply to copper goods which were absolutely vital to the Turkish economy, but by March it had been extended to cover all copper imports, however vital. Imports of wool and wool tops were stopped until such time as the Turks should agree to impose a prohibition on the export of wool rags. An embargo was placed on the imports of vegetable tanning extracts, and commodities such as hides and glycerine were under consideration at the same time. An offer was made for 50 tons of opium; this would be a supply, not a pre-emptive, purchase, although it was hoped that it would serve to reduce the quantities available for Germany. In the meantime neither atebine nor quinine would be supplied to Turkey. Subsequently it was agreed to accept a Turkish offer of 30 tons of opium.

This pressure produced no immediate effect. The only considerable improvement in the situation in February was the decision of the Turkish authorities to pay off the debts owed by various Turkish departments to the U.K.C.C. This had for long been a source of complaint by the British Government. The problem was already old when in November 1942 the Foreign Office instructed the ambassador to press for the payment of the sum of more than £3,000,000 owing to the corporation, and to point out that the existing Anglo-Turkish financial arrangements could work properly only if the Turkish authorities would fulfil their side of the bargain by paying promptly for whatever they received. Throughout 1943 constant representations were made at the diplomatic and commercial levels; they produced nothing more than small payments which barely offset the fresh indebtedness which the Turkish departments were incurring. On 24th February 1944 the Foreign Office told the ambassador that the position was becoming very serious, for the British Government might shortly be faced with the necessity of treating the monies owed as a bad debt which would have to be defended before Parliament as a charge on the public funds. It had been decided therefore to authorize the U.K.C.C. to collect the debts and prevent the accumulation of further ones by such means as a severe tightening up of credits and delivery terms. But before these expedients could be tried the embassy was able to report, on 1st March, that a further £778,000 of the debt had been paid by various Turkish departments, and on 16th March the most important single debt, £2,269,150 owed by 'Toprak' to the Corporation, had been discharged. The remainder of the debt, roughly £250,000, would be settled as soon as the precise details had been discussed.

The tougher line with Turkey fitted in with the policy that was being adopted towards the neutrals generally, and although Roosevelt and Hull had had their reservations about British policy in Turkey they agreed that they must give it adequate diplomatic

support in Ankara. Plans for a policy of economic pressure were agreed in Washington during March.¹ On 14th April 1944 Sir Hughe Knatchbull-Hugessen, with the full support of his U.S. colleague, addressed a stiff note to the Turkish Government warning it that the British and United States Governments viewed with serious disfavour, as prejudicial to their vital interests, the agreement whereby Turkey was supplying to the enemy commodities essential to the conduct of the war. Any renewal of these agreements, or the conclusion of new agreements on the same lines, would entail the application to Turkey of blockade measures such as the two Governments had throughout the war applied to neutral countries. In his first interview with Menemenciöglü for many weeks, Knatchbull-Hugessen, during a 'chilly ten minutes', set forth the Allied views on the subject of Turkish exports of chrome to the enemy. The Foreign Minister gave a somewhat vague reply but said that he intended to cut down Turkish exports to the Axis by 50 per cent. of the 1943 totals. Chrome exports would be reduced from 8,000 to 4,000 tons a month as from 10th April. The British ambassador suggested to London the conclusion of a long-term commercial agreement, but since the negotiation would inevitably take time the Ministry pressed for some arrangement which would immediately reduce Turkish exports to Germany, offering as inducement the lifting of the ban on exports and possible increased purchases in Turkey. Before these instructions could be carried out the Turkish Government took the unexpected step of announcing on 20th April the total suspension of chrome deliveries to Germany. This had the most welcome effect of reducing German imports of chrome from the 180,000 tons promised under the Clodius agreement to the 67,550 tons already exported by March 1944.

Proposals for the negotiation of a commercial agreement were almost complete in London when on 18th May the Turkish Foreign Minister handed to Sir Hughe Knatchbull-Hugessen a document outlining a possible economic agreement. The terms proposed were:

1. The export prohibition on chrome to be maintained.
2. Turkish exports to the Axis of certain commodities not to exceed 50 per cent. of such exports in 1943.
3. Where commodities required by Turkey could be furnished both by the Allies and the Axis preference would be given to offers from the former, in order that Turkish exports to the Axis of the commodities mentioned in (2) might be further reduced.

¹ *The Memoirs of Cordell Hull*, ii, 1371 and chap. 98 generally. Early in March Roosevelt took a hand in the chrome negotiations by having a letter drafted for his signature in the State Department asking İnönü, in the spirit of the Cairo conversations, to take steps to deny chrome ore to Germany. This plan was abandoned owing to Mr. Eden's view that so friendly a letter might be interpreted by the Turks as a sign of weakening by the Allies.

4. The British and American Governments would enter into negotiations with the Turkish Government regarding the supply to Turkey of goods previously supplied by the Axis and the purchase from Turkey of goods previously purchased by the Axis.

The two ambassadors recommended that these proposals should be accepted subject to an amendment making it quite clear that the Allies could not undertake any definite obligation to make good the whole of the contemplated reductions in Turkish-German trade.

The smooth course of these economic discussions, which were well on their way to giving the Allies at last the preferential position in the economic-warfare field which they had been striving for since 1941, was interrupted by an incident which reflected the disintegration of Turkey's carefully-balanced wartime diplomacy. Menemencioğlu was striving in the early summer to maintain the façade of neutrality while making the Allies extensive offers of collaboration in the political and economic fields. But while the British and Americans seemed satisfied with the progress of the commercial discussions, the Soviet Government in May bluntly rejected Turkish proposals for an agreement about the Balkans, and a severe criticism of Turkey by Mr. Churchill in the Commons on 24th May was a further warning against fencing too long with the inevitable. Early in June the British suspended the trade negotiations owing to the passage of twelve armed German ships through the Dardanelles into the Aegean in apparent contravention of Article 19 of the Montreux Convention of 1936. The Foreign Office at once lodged a strong protest. In the political crisis that followed in Ankara, Menemencioğlu appears to have opposed any surrender of what he claimed to be Turkey's established rights. But the Turkish cabinet decided to yield the point, and Menemencioğlu resigned on 15th June. There was a promise that the matter would be re-examined, and on the 16th June the Turkish Government announced its decision to act on the proposals of 18th May—that is, to reduce the export to Germany of certain commodities by 50 per cent. and to cut off the other 50 per cent. when the Allies could replace the corresponding imports from Germany. On this basis the economic negotiations were resumed. The Foreign Office accepted the view that purchases must continue for a time, to avoid the disruption of Turkish economy; in an *aide-mémoire* of 12th July it asked for United States cooperation to this end. Mr. Hull suggested to F.E.A. on 21st July that \$25,000,000 should be made available. This sum was duly earmarked by the U.S.C.C. to buy Turkish products.

The Turkish Government agreed early in July to the British proposal that it should break off political and economic relations with Germany; the British and United States Governments preferred this

step to an immediate declaration of war by Turkey, which the Soviet Government was demanding, and which might either delay the Turkish decision or force her into a degree of dependence on Russia which would push the Anglo-Turkish alliance into the background.¹ Turkey duly severed her relations with the Axis on 1st August 1944. The changing diplomatic setting of Turkish policy was to lead in the post-war years to a refurbishing of the Anglo-Turkish alliance, and even during the winter of 1944-5 the tension of the previous winter was being rapidly relaxed. As a result of the decision of 1st August 1944 the ban on imports of cotton, wool, copper, vegetable tanning extract, castor oil, borax, and rayon yarn was lifted, but as relations with the satellite countries had not been broken, the Ministry did not relax control over imports into Turkey. In August a joint Anglo-American economic committee was set up in Ankara to coordinate British and American purchasing. The war-trade lists and the navicert system remained in operation, partly to prevent imports by listed firms and partly to prevent shipment of goods in short supply. Some months elapsed before the Turkish Government took serious steps to liquidate German banks and insurance companies. Pre-emption ceased, but purchases to support Turkish economy took its place, and continued until May 1945, by which time it had become clear that the cessation of Axis purchasing had not had the adverse effect that had been expected. Turkey was already finding new customers; in particular, American and British private firms were buying Turkish tobacco. The Anglo-American purchasing plans accordingly came to an end in May 1945. Turkey broke off diplomatic and commercial relations with Japan on 6th January 1945, and declared war on the Axis in February.

¹ *The Memoirs of Cordell Hull*, ii, 1372.

CHAPTER XIX

SPAIN

(i)

Supply-Purchase, 1943

THE policy of economic collaboration with Spain, which had at first been almost the only weapon available for weakening enemy influence, seemed to have justified itself by results during 1942.¹ Germany's inability or unwillingness to supply had given the British and United States Governments an opportunity to offer Spain the comprehensive supply-purchase programme which it was hoped would serve the triple purpose of weaning Spain from exclusive reliance on the Axis, of giving the Allies certain essential commodities, and of depriving the enemy of such vital commodities as wolfram and warm clothing. The Spanish Government had given, and on the whole implemented, guarantees not to re-export to Europe goods imported through the Allied controls, and it had allowed the Allies to compete with the Germans for various classes of goods in the Spanish market. The Americans had accompanied their supplies with threats which the British considered ill-judged, but after July 1942 the State Department had adopted for a time a more conciliatory attitude in anticipation of the forthcoming operations in North-West Africa, and early in 1943 the Joint Chiefs of Staff directed that such supplies as were necessary to maintain a reasonable wartime economy should continue to be made available to Spain subject to all proper safeguards.

To the smooth development of this policy there were, however, two obstacles: one was the exasperating conduct of the Spanish on occasion, the other the exceptional sense of hostility to the Franco régime among the responsible officials of the State Department. Fresh attempts to bend the Spanish Government to the American will soon led to further oil restrictions and to renewed uneasiness in the British embassy in Madrid. Mr. Carlton Hayes, the United States ambassador, shared this uneasiness and he was perhaps even less sympathetic than the British towards the coercive inclinations of the State Department; at any rate he seems to have favoured a more

¹ Cf. chap. X above.

demonstrative friendliness towards Spain than that practised by Sir Samuel Hoare.¹

The relations in Madrid between the various groups of officials—Spanish and foreign—would have been complicated enough even without this duality of view at the highest levels. There were at least six organizations interested in economic-warfare questions—the British, United States, German, and Italian embassies, and on the Spanish side the Ministries of Foreign Affairs and Commerce. No two of these were able to coordinate their policies completely. There was apparently no serious attempt on the part of the Italians and Germans to cooperate in economic matters, and in spite of Falangist influence there was considerable resistance by the Spanish ministries to both German and Italian pressure. On the other hand there was keen rivalry between the two Spanish ministries for the control of Spanish external trade, and other ministries which might have played a part were kept in the background. The position had been much improved and simplified from the Anglo-American point of view by the setting-up of a Department of *Economía Política* in the Ministry of Foreign Affairs, which normally worked under the able direction of Señor Taberna. This strong and clear-headed official was able to keep the two ministers in check and to establish proper liaison with the British and Americans; but his departure in September 1943, shortly before his death, led to a renewed struggle between General Jordana and Señor Carceller for the control of foreign trade.

Anglo-American cooperation seems to have left little to be desired at the administrative level; the Anglo-American Economic Committee considered all joint economic problems, particularly with regard to the pre-emption campaign and the activities of the U.K.C.C. and U.S.C.C. What difficulties there were arose primarily from the fact that the ultimate control was in the hands of the Governments far away in Washington and London. By the end of 1943 the divergence of policy between the two Governments on the Spanish situation had not been removed and this complicated the relations between the two embassies in Madrid, although it appeared that the United States ambassador still accepted in the main the British thesis.²

¹ Feis (*The Spanish Story*, p. 202) mentions Acheson, Feis, Finletter, Labouisse, and Merchant, the last named being the chairman of I.P.O.C. in April 1943, as the group which had 'nursed the Spanish program'. 'They felt that they, not Hayes, were the true custodians of our Spanish policy and programs.' The State Department 'wanted to drive a hard bargain and was not wholly averse to coercion. The B.E.W. favoured a policy of sending even less and did not seem to worry over what might happen in Spain' (p. 196). Hayes later attacked Feis's views (*The United States and Spain*, New York, 1951, pp. 197-8).

² The Hoare-Hayes partnership seems, nevertheless, to have been an uneasy one. Hayes in his memoirs suggests that Hoare wished to maintain the lead in Anglo-American diplomacy in Madrid which he had already achieved, that he was unsympathetic in general towards Americans, and still secretly resented the loss of the American colonies! (C. J. H. Hayes, *War-time Mission in Spain*, p. 35). Hoare says little about Hayes in his own memoirs, and does not mention the United States ambassador by name, although he criticizes him on one occasion for failing to keep his English colleague informed (*Ambas-*

Economic warfare in Spain was basically a war of finance, the Allies' power to purchase being measured by their power to supply. The German attempt to ignore this fact in 1940 and 1941 and to secure supplies by political pressure had failed; during 1942 the Spaniards had allowed the Allies to enter the market freely and compete with the Germans for all classes of goods, and had refused export licences to the Germans in many cases. On 17th December 1942 the Spanish Government, after many months of resistance, signed a new agreement whereby Germany secured purchasing power in return for an undertaking which included the supply of arms and industrial raw materials and the buying of a large quantity of oranges. The Germans were obliged to proceed at once with their orange purchases and they took advantage of the agreement to make other purchases.¹ They were, however, unable to maintain their supply programme and the operation of the new agreement was brought to a standstill after three months. The Spaniards discovered that the Germans were proposing not only to deliver obsolete and unsuitable arms but to charge four or five times their real value. In March 1943 therefore Señor Carceller suspended export licences and payments through the clearing, apart from those of oranges and one or two products of low priority. The German buyers did not dare to abandon the market entirely and endeavoured to maintain their purchases in local currency, but the deadlock continued until August (1943).²

sador on *Special Mission*, p. 259). There seems no doubt that Hayes, rightly or wrongly, felt it his duty to assert himself, and that Hoare, rightly or wrongly, deplored this as a threat to Allied unity. François Piétri, the French ambassador, says that he got on well with Weddell and Hoare, but not with Hayes; he thinks that Hayes in his memoirs seeks naively to exaggerate his own rôle (*Mes Années d'Espagne, 1940-1948*, Paris, 1954, p. 136). He also suggests that Franco sought deliberately to increase the secret rivalry between Hayes and Hoare, by favouring Hayes with personal invitations unusual in his relations with ambassadors (pp. 137-8).

¹ Cf. the 'Secret Protocol Between the German and Spanish Governments', 10th February 1943, signed by von Moltke and G. Jordana (*The Spanish Government and the Axis*, U.S. Govt. Printing Office, Washington, 1946).

² These details were known to the British embassy at the time. They were broadly correct, although the exact degree of psychological tension or anti-Allied connivance between the Spanish and German Governments was a matter of guesswork. There is considerable post-war information from German sources, in *Fuehrer Conferences; Documents secrets du Ministère des Affaires Etrangères d'Allemagne*, translated from the Russian by M. and E. Eristov (Paris, 1947); and the U.S. State Department publication, *The Spanish Government and the Axis*. A note by the German Naval authorities given to Hitler on 22nd December 1942 is as much a criticism of the German Foreign Office (responsible for economic as well as political negotiations with Spain) as a programme of action. It emphasized the great importance of Spain for the strategic situation of German naval warfare, especially of submarine warfare and blockade running. An Allied occupation of the Iberian Peninsula would deal a serious blow to German economy "by completely paralysing the movements of our blockade runners, which are vitally important to us". Germany would lose, and the Allies gain, important raw materials, 'of most decisive importance for our war effort; the Iberian Peninsula supplies us with one million tons of iron ore, 3,500 tons of wolfram, 200 tons of lithium, 1,000 tons of tin, and mica and beryllium ore besides'. The conclusion was that everything must be done to strengthen Spain's will to resist by arms, and to investigate how far Spanish and Portuguese economic life could be maintained if they had to resist an Allied attack (*Fuehrer Conferences, 1942*, p. 144 (not in Brassey)).

When the Germans found that they could not obtain pesetas through the clearing they resorted to a variety of devices to secure them outside it. The Allies were obliged to resort to similar tactics. On several occasions, however, in the first half of 1943, the Spanish Government gave the British facilities to acquire pesetas: this could have no other purpose than to frustrate the German efforts to obtain goods, although it also helped to keep up prices. The dependence of the Allies on these facilities was considerable. During the six months which ended on 30th June 1943, 142 million pesetas were spent on the purchase of wolfram; of this sum only 46 millions were obtainable through the clearing and for the balance of 96 millions, free pesetas had to be found. These financial facilities were mainly granted by those experts in the Ministry of Industry and Commerce and the Ministry of Foreign Affairs who throughout had supported Anglo-Spanish cooperation in economic affairs, and who were increasingly aware that Germany could not win the war or deliver the goods needed by Spain.

However, to take advantage of these favourable, although circumscribed, approaches from the Spanish side the British and United States Governments had to offer a *quid pro quo* in the shape of imports. Some of the goods most needed by Spain, particularly rubber and tin, were in extremely short supply. Britain's main difficulty was rubber. The Ministry wished to send 500 tons to Spain between January and June 1943 and on this largely depended the success of the campaign to deprive Germany of wolfram and woollen clothing.

Eventually, although the Ministry of Supply was not prepared to continue rubber supplies at the 1942 rate of 2,000 tons, it agreed by 22nd February 1943 to an allocation of 1,000 tons up to the end of 1943 over and above the 359 tons still outstanding on the 1942 allocation. These discussions over rubber and other goods such as ammonium sulphate delayed matters and the supply programme for the first six months of 1943 was not finally passed by the Combined Boards in Washington until the end of March. It was not considered necessary to make a formal approach to the Spanish Government, so that although the United States embassy in Madrid only received final instructions to proceed with the programme on 5th May, trade on the agreed lines had in fact been going on for some months.

Petroleum products formed an even more important part than rubber of the joint Anglo-American supply-purchase programme. Mr. Walter Smith, the U.S. oil attaché, visited Washington in December 1942 where his proposal, an annual import of 541,000 tons, was accepted. On several subsequent occasions, however, the State Department decided to cut supplies, chiefly it would seem to appease public opinion in the United States, which had been antagonized by an unfortunate speech made in Barcelona by Mr. Hayes on

26th February 1943. This speech resulted in 'hostile press comment, congressional criticism, and dock labour agitation'. Mr. Hayes gave the impression that so much oil was being sent to Spain that the Spaniards were able to increase their rations while Americans were going short. The resulting agitation enabled the State Department, which had already decided that Spanish oil stocks were too high,¹ to reconsider the whole Spanish oil programme and at the end of March 1943 it was proposed that (a) programmes should be limited to the carrying capacity of the Spanish tanker fleet as judged by the performance over the previous few months, which was 100,000 tons per quarter; (b) no increase in the rate of loading above this figure should be permitted. At the request of the British in Washington, however, the State Department agreed that if loading schedules in fact showed an increased rate, the matter would be reconsidered when the moment arose. The excuse given for this sudden change was that the programme then in operation was unrealistic in that it exceeded the Spaniards' capacity to lift the full amount contemplated, although in fact one of the main causes of the State Department's apprehension was precisely the increase in the Spanish loading capacity through the acquisition of extra tonnage. It was also said to be difficult to defend as it represented 60 per cent. of Spanish imports for 1936, which was the second highest import figure for the previous ten years. As an afterthought the State Department added that since the programme was first agreed the Western Mediterranean had become an active fighting area and any increase in the rate of shipments to the Peninsula should be carefully scrutinized and not authorized except as a decision approved by the Chiefs of Staff.

Sir Samuel Hoare was strongly opposed to any such cut; so too was the Ministry in London. Among other objections was the fact that it conflicted with the recent directive by which oil and other raw materials were to be supplied to Spain in sufficient quantities to maintain a reasonable wartime economy. But the State Department was determined to go ahead. The next move was an instruction to Hayes to cancel one of the two Spanish tankers sailing to load on 4th or 5th of May, or to recall one if both had already sailed. This was based on a State Department estimate that stocks were excessive in relation to the agreement. The British and American experts in Madrid were convinced that this was not the case, and Hayes decided not to recall a tanker (both had sailed). Smith protested against the ignoring of his figures. The State Department then decided to withdraw its instructions about the tanker, but to consult the United States Chiefs of Staff—again without informing the British. In the meantime, however, Hayes was instructed, early in May, to cancel all loadings for 20th May, involving five tankers and a total of 45,000

¹ At a meeting presided over by Mr. Welles on 11th February: Feis, *op. cit.*, p. 198.

tons. Hayes was so strongly opposed to this course that he decided to use his prerogative to overrule his instructions. The two embassies in Madrid were more than ever convinced that the curtailing of shipments would have disastrous results, particularly in view of the need for a full mobilization of all available financial resources just at this point in the wolfram campaign. They were satisfied that existing measures of control in Spain ensured that there was little danger of a leakage of supplies to the enemy. The Chiefs of Staff were not very helpful; Admiral Leahy gave it as his personal opinion that they were not particularly concerned whether Spanish oil imports were 135,000 or 100,000 tons for the second quarter; on the other hand they could not say that the political repercussions of a cut would damage the strategic position. Nevertheless the State Department was beginning to weaken, and meanwhile, on the instructions of the War Cabinet, the British Joint Chiefs of Staff Mission in Washington took up with the United States Chiefs of Staff the question of loading authority for the five tankers.

The Department was not disposed to agree to Mr. Smith's recommendations—269,000 tons—for the second half of 1943, although it did agree, with obvious reluctance, to the loading of the five tankers, and on the 21st May to the loading of the *Campilo*. The Department's telegram announcing the *Campilo* decision was an implied reprimand to the ambassador for his independent attitude. On the 20th Sir Samuel Hoare found him 'greatly worried and depressed over the question of oil for Spain'. He said that he had sent several telegrams to Mr. Hull making the strongest possible case for the agreed programme, and had asked whether the new turn meant a change in Allied policy in Spain. The British embassy in Washington believed that no more was involved than a stricter interpretation of the existing programme under political pressure. Nevertheless, the efforts of the Americans to restrict oil exports continued; they seemed inclined to regard the oil question as solely their own affair, and the British pressure in favour of a more lenient policy was not too well received. It does rather look as if public hostility to Spain, although real enough, had been seized on by critics of General Franco in the State Department to put forward an economic policy of their own.¹ This seems to have started from the assumption that it was undesirable to allow Franco to feel too secure: if he were freed from apprehension, particularly about his oil supplies, he would find it easier to resist demands that he should cease trade with the Axis. Furthermore, oil would help to increase production and transportation, and therefore the amount that the Allies would have to purchase. This was at many points a denial of the Hoare-Hayes view that Spain could be drawn by economic inducement into the Allied camp, and that

¹ This is evidently Feis's view: *ibid.*, pp. 199-200.

publicized acts of coercion would merely arouse a dreadful stubbornness; moreover, that oil was a *quid pro quo* of vital importance in the wolfram negotiations.

The significance of oil in this connexion was well illustrated in M.E.W.'s first draft of the supply-purchase programme, drawn up in May, for the second half of 1943. This estimated sterling supplies to Spain at about £6,000,000, with dollar supplies equivalent to just over £7,000,000, giving a total on the credit side of £13,390,111. On the debit side purchases were estimated at £1,818,500, all for the United Kingdom; joint pre-emptive purchases were put at £10,868,125. Thus there was a slight credit balance on the whole programme (although there was a deficit of about £1,000,000 on the sterling side). These figures were based, however, on the assumption that the full quantity of 268,000 tons of petroleum would be supplied to Spain, and that the price of wolfram would fall from its existing level of over £8,000 a ton to £6,200 a ton. But if wolfram remained at the higher price there would be a deficit of over £2,000,000; it was considered most unlikely that the Spaniards would give a credit for this, and it would therefore be necessary either to reduce wolfram purchases or give the Spaniards further supplies. In these circumstances the contemplated reduction of the oil programme from 268,000 to 200,000 tons would (with petroleum products costing 30 dollars a ton) result in the loss of £500,000 tons on the credit side, at the worst possible time.

The American preference for forcible methods continued, although after a somewhat rough passage a proposal to allow 270,000 tons to go to Spain in the second half of 1943 was accepted. But a set of conditions was drawn up early in July which the Spanish Government was to be required to accept in return for continued supplies. As originally drafted the American demands were (a) Spain to make available to the United States and United Kingdom exchange adequate to meet purchases made in Spain over and above the funds secured through the sale of goods to Spain; (b) Spain to agree not to extend any credits to any enemy country; (c) Spain to transfer bunker fuel for its merchant vessels from Caribbean to United States ports, and to repay in its own vessels bunker fuel supplies made to its merchant ships by United Nations tankers during periods covered by previous agreements; (d) Spain to issue promptly to the United Nations, export licences covering all purchases made in Spain. Another American proposal was that no vessel fishing for the enemy should have any gas oil. Further conditions were expected. The Ministry recognized the urgent need for some concession by the Spaniards on the lines of (a) and (b) but there were practical difficulties in the way of carrying out all the proposals, and, over and above this, the method of procedure seemed thoroughly inexpedient. A

financial crisis was anticipated in the near future, primarily owing to the rising cost of wolfram purchases, and the Ministry proposed to Washington on 20th July an approach to the Spaniards on a friendly basis, emphasizing the determination to continue to supply Spanish requirements, and urging them to accept appropriate rights to use their balances above agreed limits for the purchase of gold. The British Government would first offer gold in London for export after the war, but would be prepared if necessary to allow export at once. The United States and United Kingdom missions could at their discretion give a warning to the Spaniards against granting credit for the benefit of the Axis powers, on lines similar to that given recently to the Swiss. The only alternative method would be a threat to cut off supplies.

Given Spanish mentality, there is no reason to suppose that, however favourably the war situation developed, such methods would pay us any better than they paid the Germans in their days of success . . .

Sir Samuel Hoare, who fully agreed with these views, reported on 29th July that on the assumption that as many supplies as were possible would be sent to Spain, the Spanish Government was prepared to break away from the restricted credit terms which it had imposed in the three preceding years. The United States authorities agreed generally to the British suggestion that the Spaniards should be allowed to purchase gold, and the British Government accordingly decided that at this stage of the war, under suitable guarantees, there could be no objection to gold being shipped to Spain, and arrangements were made for half to be shipped to Spain and half to be earmarked to Spanish account in London.

The State Department still attached great importance to its proposals, although it agreed to put them in a more acceptable form. It was still anxious, however, that the offer of supplies should be based on an 'expectation' that the recommendations would be met. In the revised form they included three lists of commodities. List A set out the maximum quantities of certain materials which could be made available for purchase by Spain, and was to include all carry-overs from previous programmes. List B gave some details of purchases which the Allies hoped to make and List C consisted of products which were not to be exported from Spain unless approved by the United States and British Governments. These were later reduced to cover only those products not already included in the war-trade agreement. The 'demand' that the Spaniards should reduce exports of certain indigenous products was redrafted to a request that 'Spaniards shall view sympathetically'. The Ministry welcomed and accepted the three lists, with some minor alterations, on 3rd August. The American representatives in Madrid, who were work-

ing very closely with the British, considered some of the conditions impossible and were moreover becoming impatient at the delay, and anxious to begin shipments. The programme was therefore presented orally to the Minister for Foreign Affairs, who accepted it, and asked for a reconsideration of certain figures, and for shipment of 100,000 tons of wheat from the United States to Spain in the immediate future. The more conciliatory tone of the State Department had not pleased everyone in Washington; by October the advocates of more forceful methods were again clamorous. Mr. Leo T. Crowley, the Director of O.E.W., now urged the use of America's economic bargaining power to enforce a cessation of wolfram exports to Germany. For a time the political officers of the State Department supported the more persuasive approach and suggested to Hayes on 15th October that the Spanish request for wheat might offer an opportunity to press for a prohibition of wolfram exports.

Hayes wanted to go much farther, and on 21st October suggested a comprehensive bargain whereby Spain should be asked to prohibit the export of wolfram and also fluorspar, strontium, and zinc, or agree to carry in Spanish bottoms any quantities of these three commodities that the U.S.A. might purchase. In return, Spain would be granted certain concessions including the removal of surcharges from petroleum products and other commodities, and the U.S. and U.K. would purchase traditional trade commodities on a scale equal to the cost of the volume of wolfram purchased in 1943 (at current prices less production tax). If U.S. and U.K. purchases exceeded Spanish purchases, the balance should be settled in free gold. In further telegrams to the State Department Hayes set out a long list of items which Spain might require, and emphasized the importance of making wheat available. The State Department, which was not much attracted by this accommodating policy, was not prepared to come to an immediate decision on the ambassador's proposals; it delayed doing so partly because it had heard that the British embassy in Madrid was about to put forward new proposals, mainly however because the Laurel incident again swung official opinion decisively in favour of a more minatory approach to a wolfram embargo.¹

The British in the meantime had started conversations with the Spanish Government with an offer to revive the traditional trade between the two countries. Mr. Ellis-Rees, the financial adviser, after a visit to London, began discussions at the end of October. The Spanish Government's anxiety to resume the trade gave the British a trump card, and the Spanish authorities at once showed

¹ On 23rd October, Jordana sent a telegram of good wishes to Laurel, the quisling President of the Philippines. This inept move was apparently due to Jordana's failure to understand the significance of a draft presented to him by one of his most germanophil subordinates. Hayes was ordered on 27th October to suspend all communication with the Spanish Government until further notice. Cf. Feis, *ibid.*, pp. 229 *et seqq.*

their willingness to make useful counter-concessions. In return for the agreement of the British Government to buy oranges and certain other foodstuffs in fairly substantial quantities the Spanish were asked to grant improved financial facilities. This they proceeded to do by removing the arbitrary restrictions on clearing balances which had prevented the British from making sterling payments freely, and they agreed to accept payments freely until such time as their sterling balances became inconveniently large. In due course they also adjusted the peseta-sterling rate of exchange by reducing it from 40.50 to 44. This made possible the resumption of Britain's traditional purchases without prejudice to her pre-emptive purchases. In his first discussions on these matters at the end of October Ellis-Rees had done his best to link up 'traditional' and 'pre-emptive' purchases, pointing out that as long as unrestricted export of wolfram continued Britain would be obliged to devote large sums to wolfram purchases which might otherwise be used for traditional trade. It was clear, however, from the response that it would be very difficult to persuade the Spanish Government to prohibit or severely restrict the export of wolfram, although they insisted that they were quite prepared to refuse exports if the Germans did not pay for the wolfram under the terms of their agreement.

Sir Samuel Hoare did not consider that this offer to resume the traditional trade would in any way lessen the effectiveness of his pressure on the Spanish Government on other questions; but there was some uneasiness in the British embassy in Washington lest the policies of the two Allies should get out of step. The Ministry told Washington on 28th October that it did not think that the supply of 100,000 tons of wheat should be made conditional on a wolfram export prohibition, because it was the sort of approach to which the Spaniards inevitably reacted in a mulish manner, and if the Spaniards called the bluff it was unlikely that in the last case Spain could be deprived of an essential foodstuff. The British embassy in Madrid did not believe that any scheme could be devised which would ensure that the Germans got less wolfram than that at present; the Spaniards had already set the Germans a difficult task, and were insisting that the Germans should settle their debts. Mr. Ackerman, the U.S. commercial counsellor, had himself had discussions with the Spaniards during the last fortnight about wolfram and received similar impressions. The British and U.S. embassies in Madrid thus appeared in substantial agreement as to the impracticability of insisting on a complete embargo on wolfram exports, and satisfied that by somewhat more cooperative methods they could secure more from the Spaniards than by any policy of sanctions or threatened sanctions. Nevertheless, a telegram to Hayes from the State Department on 6th November made clear the Department's determination to demand the prohi-

bition of wolfram exports among other desiderata without offering wheat or anything else in return. In a telegram of 10th November Hayes gave the Department to understand that he had made a demand on the required lines to the Spanish authorities, but on the following day he questioned the desirability of continuing to use this approach, and reiterated the recommendation made in his telegram of 21st October.

Soon after this the advocates of 'big-stick' methods in Washington gained the upper hand, and embarked on the course of events which led to the oil embargo of January-April 1944. It would, however, be a mistake to exaggerate the difference between the British and American methods of approach. British policy was based on the use of supplies as an inducement to Spain to collaborate but with the very definite implications that the British Government could not make sacrifices to supply such commodities as rubber without a *quid pro quo* from Spain. There were certainly differences of opinion between the embassy and M.E.W. as to the degree of pressure which could safely be exerted on Spain; this was seen more particularly in connexion with contraband control (cf. p. 443). In England, too, there were elements of public opinion which distrusted any collaboration with Spain as 'appeasement'. The pressure in the United States for more aggressive and forceful methods had therefore some counterpart on the British side, although it was never strong enough to dominate British policy.

(ii)

Pre-emption: the wolfram problem, 1943-4

Wolfram had now become the main issue in the Spanish problem, and we must pause here to examine the course of the pre-emptive battle up to this point. In 1942 the Allies' chief preoccupation had been to prevent the enemy from acquiring badly-needed woollen textiles and skins; when it became clear that the Germans intended to concentrate in 1943 mainly on wolfram, the Allies did the same. They were helped by the agreement of the Spanish Government to limit the export of skins to Europe to 950 tons. The Spanish Government also allowed them—in spite of German protests—to devote 80 per cent. of their resources to buying wolfram, instead of demanding that a greater proportion be spent on traditional trade. The whole of the Anglo-American financial resources could therefore be made available for wolfram purchases, apart from minor products such as fluorspar, mica, and cobalt. As a result the Germans were driven out of the wolfram market during the second half of 1943. The struggle

was, however, a severe one; Sir Samuel Hoare said later that the financial adviser's report for 1943 read like a chapter of military operations. The year's figures showed 3,335 tons to the Allied credit as against 900 on the German side. The battle was not won: forces were at work to enable the Germans to re-establish a strong position.

Germany's supply position with regard to wolfram was believed in London at the beginning of 1943 to be extremely precarious and it was estimated that she would require at least 6,000 tons during the year. It was thought that her stocks at this time did not exceed 500 tons. Production in Axis Europe was estimated at 250 tons. Even if the Japanese were able to spare as much as 1,000 tons and run such an amount through the blockade, something like 5,000 tons would still be needed from the Iberian Peninsula.¹ The Anglo-American aim was to limit her acquisitions from this source to 1,500–2,000 tons. By the beginning of 1943 the British had made considerable progress in building up an adequate field organization and intelligence service in Spain for wolfram purchases, but they were still seriously handicapped by lack of liquid capital. Only a small proportion of the wolfram purchases came directly from properly developed mines; the greater part came in small quantities from hundreds of fossickers and speculators who wanted payment in cash. As purchases of wolfram increased in quantity and value it was found impossible to obtain pesetas through the clearing because exports to Spain could not be expanded at the same rate. The Germans on the other hand had an extensive and superior organization and managed to secure the output of most of the important producers and sellers by offering tempting prices. The Germans in fact took their enemies very much by surprise.

The first few months of 1943 were therefore spent by the British and Americans in a desperate struggle to acquire funds. A Spanish 'cloak' company was deemed necessary; and in conformity with Spanish law it was necessary to find some person or entity legally qualified to acquire title to mines or mining concessions, and which had, ostensibly at least, 100 per cent. Spanish capital. At the same time it was essential that such a body should be completely under Allied control. Accordingly the S.A.F.I. company, the full name of which was Sociedad Anonima Financiera e Industrial, was organized. S.A.F.I. could purchase unlegalized ore from small miners and intermediaries at the current price of from 80–120 pesetas, reselling to the U.K.C.C. and U.S.C.C. at 130 pesetas. The same mineral collected

¹ These estimates can be compared with the Spanish figures on p. 667. There are numerous references in the surviving German documents to the urgent need for wolfram. E.g. 'At my own request the Führer authorizes me to convey to the Foreign Minister his express wish that negotiations with Spain for deliveries of wolfram and other ores must be carried through with the utmost energy and dispatch, as these negotiations are vital for us.' Speer (Hamburg) Documents, 11th April 1943.

and sold by any other means would cost the Allies 170 pesetas per kilo. The Germans had for some time had a similar pseudo-Spanish corporation. By the end of February 1943 the effects of S.A.F.I. were beginning to be felt, particularly amongst those miners who were bound to Germany by long-term commitments. In February the Germans were provisionally estimated to have acquired the equivalent of 150 tons of 65 per cent. mineral as against British acquisitions of about 83 tons; by March, sales to the U.K.C.C. had jumped from 94 to 144 tons and in the middle of the same month the Allies for the first time effectively took the lead over the Germans with respect to prices.

In spite of this improvement the Ministry still regarded the position at the end of March 1943 as disturbing, for the success of the campaign had to be judged not by the amount of wolfram secured by the Allies but by the amount denied to Germany. The British embassy was told on 15th April that wolfram must be given first claim on available funds and staff, even at the expense of other items on the pre-emption programme. By degrees the two embassies built up a joint fund of 220 million pesetas and by April everything was ready for a big drive. The bidding was raised and the range of purchases extended to include the lower grades of mineral. Special prices were paid, six months' contracts and bonuses offered, and efforts made to bind every operator in the wolfram field to the Allied organization. On 8th May it was agreed that as many total output contracts as possible should be secured. The Anglo-American Committee had already authorized the U.K.C.C. to guarantee the production tax to producers who cooperated. By the end of June the Allies had succeeded in completely destroying the German purchasing power, restricted as it was by the failure in March of the German-Spanish economic agreement.

Although this result was highly gratifying and the Germans were reported to be greatly discouraged, expenditure had of necessity increased at an alarming rate. Determined to profit by this economic warfare, the Spanish Government had in 1942 imposed an export tax of 50 pesetas per kilo. In January 1943 this was changed to a production tax of 100 pesetas. Although surcharges were imposed by the Allies on imports into Spain to help to meet this tax the strain on Allied resources was severe, involving an outlay of a further 17 million pesetas a month. In addition, the tremendous competition brought about a rapid rise in prices, resulting in a marked increase in production, so that the Allies were obliged to purchase a progressively higher percentage of the total production in order to keep their lead. At the same time, owing no doubt to this rapid rise of prices in Spain, substantial quantities of mineral were smuggled across the border from Portugal. It was estimated that to deprive the Germans of this

additional supply would cost the Allies a further 35 million pesetas a month, in addition to the 95 million already being spent.

At the height of the campaign the Allies were paying about £7,500 per ton; an increase of 50 per cent. over the January price. The rate of expenditure exceeded £20 million a year. By the middle of June the British authorities, including the Treasury, were seriously perturbed at the cost, more especially as the Germans had ceased buying almost entirely. It was difficult to believe that this was due entirely to their lack of pesetas. Some doubts began to be voiced as to whether the pre-emption of wolfram on such a vast scale was really justified. On 12th June it was reported that B.E.W. was beginning to question the importance of wolfram to the enemy's war effort. However, the fact that the Germans had temporarily retired from the market was no guarantee that they would not return, and in a paper prepared for the Chiefs of Staff, M.E.W. re-emphasized the paramount importance of wolfram to the enemy. The Allies might not be able to interfere with German basic industrial needs (now estimated at 4,300 tons) but they could hope to prevent any substantial employment of wolfram in the manufacture of tungsten carbide cores for armour-piercing shells, which were becoming increasingly important. On 26th July the State Department told the United States embassy in Madrid that B.E.W. agreed that wolfram was still of first pre-emptive importance, and must accordingly take precedence over all other commodities.

So the moment of doubt passed, and the Allies turned to the problem of costs. In July, purchases had amounted to over 500 tons and it was agreed that it would be impossible without completely new financial arrangements to continue at this pace. As the Germans were in financial difficulties and not competing it was decided that the U.K.C.C. should experiment with a plan for the reduction of purchases, in the hope of bringing about a reduction in price. The plan was aimed against the 'buscones' or small independent suppliers who were obtaining fantastic prices and undoubtedly increasing production. The wolfram they obtained was useless unless attached to a mine with 'guias' or selling rights, and it was felt that if the mine owners could be persuaded to restrict the buscones' activities, prices would be brought down after a short period without the loss to the Allies of the goodwill of those controlling deliveries of wolfram.

A new price scale, involving a reduction of 100 pesetas per kilo for all grades of mineral below 55 per cent., was introduced into the Salamanca area on 23rd July, and it was decided to bring this new scale, plus a further reduction of 50 per cent., into force from 1st August in Galicia, which had already been warned, and from 5th August in the rest of Spain. Attractive contracts and bonuses were to be offered to miners who agreed to limit production and sign total

output contracts. As anticipated, the price cut caused great consternation amongst the suppliers and more or less complete stagnation set in. Prices were again reduced on 20th November.

Thus by the end of the year 1943 the Allies had secured control of the wolfram market and had forced the price down to about a hundred pesetas per kilo. At this price they hoped to check production and buy as little as possible, although they were ready to compete once more in the price war should the Germans re-enter the market. The success of this policy is shown by the fact that in December 1943 the Allies bought only 154 tons as compared with an average of about 300 tons per month in the three previous months. The relief was indeed welcome after the excessive outlay earlier in the year: between October 1942 and the end of September 1943 the Allies had bought in Spain 2,397 tons of wolfram at a cost (excluding export tax) of £9,688,096. The export tax amounted to a further £4,754,700. It was estimated that surcharges on sugar and seed potatoes would yield only £500,000 of this vast sum.

Pressure on the Spanish Government to stop wolfram exports had hitherto come mainly from the British embassy. Mr. Ellis-Rees had pressed for an embargo in the autumn of 1942, and in September 1943 Mr. Yencken had warned both Jordana and Taberna against the consequences of prolonging the war by allowing the ore to be exported to Germany. On 4th November Sir Samuel Hoare asked Jordana for an embargo and left an *aide-mémoire* with him covering the question. From the start he felt uneasy about the prominence which the State Department desired to give to the wolfram issue, but it did not appear that the Americans themselves had yet decided how far they should go in trying to force through a complete embargo. On 15th November the Department appeared to have approved in principle Hayes' proposals of 21st October and 11th November; that is to say he was to ask for the wolfram embargo and various other (non-economic) concessions, to offer various concessions in return, and to refrain from any direct threat of withholding supplies. But after he had presented a memorandum on these lines to the Spanish Foreign Minister on 18th November the State Department was dissatisfied; it felt that he had gone beyond his instructions in hinting at the possibility of increased supplies. At the end of November he was told to soft pedal on the question of increased supplies, and await Jordana's reply. Lord Halifax thought at this stage that although F.E.A. might favour drastic economic sanctions the State Department did not as yet intend any complete rupture, even if the Spanish reply to the wolfram memorandum were unfavourable. But by the middle of December no reply to the American memorandum had been received, although Carceller had told the U.S. commercial counsellor that it was impossible to accept proposals of this kind.

Sir Samuel Hoare continued to make it clear to Jordana that there was 'a solid Anglo-American front' on the wolfram question, but he was convinced that in the existing circumstances of the war the use of the final weapon of economic sanctions would be unwise. For this there were several reasons. It appeared that Jordana's position had been greatly shaken by the Laurel episode, and that he was open to attack both from the Falange for having explained away the letter, and from anti-Falangists for having endangered Spanish-American relations; as a result he was likely to be less amenable to pressure than before. An embargo on wolfram would inevitably mean smuggling of Spanish wolfram into Portugal where it would either be put into the Portuguese pool and divided equally between the Germans and the Allies, or smuggled into German-owned mines and therefore handed over completely to the Germans. It seemed indeed that without a Portuguese embargo a Spanish embargo would make the situation substantially worse. A Spanish embargo would clearly be a blow directed against Germany, a palpably unneutral step which the Spanish Government was extremely reluctant to make. Spain was receiving arms from Germany; if Spanish-German trade was substantially reduced Spain would ask for arms from Anglo-American sources, a request which it would be very difficult to meet. Finally there was the undoubted fact that the wolfram struggle was turning very much against the Germans, who did not appear to be receiving substantial economic help from Spain at this time.¹ These arguments were put to the Foreign Office in a series of telegrams by Hoare during December, and he reported on several occasions that Hayes was in substantial agreement with him. Thus on 28th December Hayes said that he did not consider the United States Government's case for a wolfram embargo to be at all watertight and that he doubted the wisdom of putting it into the forefront of the campaign for concessions from the Spaniards.

Hoare's recommendation to the Foreign Office at the end of December was that in the first instance there should be no explicit threat of a cutting off of rubber and oil supplies in order to force concessions on such matters as the Tangier question and the wolfram embargo, but that delays in supplying these goods should be made with the excuse that the intensification of the war made them necessary. If the Spanish Government remained obdurate, the imposition of an actual embargo could be considered, but it would be wise to move step by step, remembering that in dealing with Spanish men-

¹ General Franco told the German ambassador Dieckhoff on 3rd December that Spain could only recover from the civil war 'if it imported gasoline and cotton from abroad, products which he could receive only from the Americans and only with English navicerts . . . a neutral Spain which was furnishing Germany with wolfram was, in his opinion, more valuable for Germany at the present than a Spain which would be drawn into the war' (*The Spanish Government and the Axis*, pp. 37-9).

tality it was best not to dot the i's and cross the t's too conspicuously. This was very much Hayes' plan, and he agreed with Hoare's presentation of the case. The Foreign Office had sent instructions to Hoare on 20th December to raise a number of questions with General Franco; these questions did not include the wolfram embargo, and the State Department commented unfavourably on the omission, saying that Hayes had expressed some concern at the fact that the British ambassador had apparently had no instructions to support the U.S. embassy's representations about wolfram. Hoare replied on 5th January that the United States ambassador must be saying one thing to him and another to the State Department, as he had throughout made it clear that the British Government was supporting the demand for a wolfram embargo in spite of the very obvious difficulties involved in it. The omission of all reference to wolfram in the Foreign Office instructions was certainly an error in tactics as far as relations with Washington were concerned; Hoare became from this point the scapegoat for the American failure to make headway. On 7th January, after discussion with M.E.W., the Foreign Office agreed that Hoare should be instructed to mention the wolfram question to Franco 'as one which must soon be settled in a manner favourable to the United Nations'. But at the same time it insisted on the practical difficulties; the United Nations had many political grievances against Spain but nothing much that they could complain of in the economic sphere, whereas Portugal had given the United Nations their strategic and political desiderata, but had been consistently difficult over economic questions. Yet the British Government was precluded by the Azores agreement from imposing economic sanctions against Portugal.

But now the case for economic sanctions was vastly strengthened by Spain's own action. By August 1943 the Germans had completely exhausted their resources in local currency, and had been compelled to reopen negotiations with the Spanish authorities for a resumption of payments through the clearing. General Jordana and Señor Taberna, who were in charge of the negotiations, insisted on the reduction of the value of German arms to be supplied to Spain from 1,000 million marks to 216 million, and on the liquidation of the clearing debt (which the British embassy estimated at about 180 million marks) before further facilities for purchases and transfers through the clearing by the Germans were granted. It was expected that the Germans would be able to make new purchases, including wolfram, by the end of the year, but not before then. The Spanish Government had also, however, owing to Anglo-American pressure, to negotiate with the Germans over the withdrawal of the Blue Division from Russia. The Germans demanded as a counter-concession a settlement of the outstanding civil war debt owed by Spain to

Germany, and after a good deal of haggling, agreed to accept for the time being a figure of 100 million marks. Jordana and Taberna had insisted that the greater part of this sum should be expended on traditional purchases, and not on strategic raw materials. Particulars of the German-Spanish agreements on these lines were known to the British and American embassies by October 1943, and were considered to be satisfactory enough in the circumstances. But after Taberna had left the Ministry of Foreign Affairs Carceller came to a secret agreement with the Germans whereby the funds accruing to the Germans from the debt settlement should be made available to them for the purchase of wolfram, mercury, and textiles, and for financing their embassy expenses. Mr. Ellis-Rees was given definite information about this arrangement for the first time on 10th January 1944, in a long conversation with Señor Huete, the vice-president of the Instituto de Moneda. Carceller confirmed and amplified the facts in a further conversation with Mr. Ellis-Rees on 14th January. It had been agreed that the Germans should be provided with 425 million pesetas, the equivalent of 100 million marks; the first instalment of 100 million pesetas had already been placed at their disposal, and others would follow in monthly instalments over four months.

It was the secret agreement and its implications that determined British action. 'As to the embargo on wolfram,' said Carceller, 'they felt it impossible to deny completely to Germany a commodity which they wanted badly and which, as far as the Spaniards were concerned, had a very high value in wartime.' From the political angle the new move was retrogressive; both Franco and Jordana had appeared to recognize in 1943 that with the tide of war running steadily in favour of the United Nations it was in Spain's interest to pay increasing attention to their wishes; the fact that it had been concluded behind Jordana's back added an air of intrigue to the transaction. A second objection from the Spanish Government's point of view was that private business interests stood to benefit enormously from the increased sales to the Germans. The Germans had apparently agreed to pay nearly 300 pesetas a kilo for their wolfram, although the Anglo-American purchases were at less than 200 pesetas, including tax.

Accordingly the Foreign Office, after consulting M.E.W., recommended to the U.S. Government that immediate action should be taken to reply to the 'most unfriendly and provocative gesture' of the civil-war debt settlement; it proposed that in addition to the suspension of the oil shipments in February, serious administrative delays over facilities for cotton imports should arise. Following instructions which were sent to him on 18th January the U.S. oil attaché told CAMPSA on the 22nd that the next instalment of oil tankers would be held up; CAMPSA was reported to have received

the announcement calmly. Sir Samuel Hoare entirely agreed with this procedure but he hoped that his forthcoming meeting with General Franco would lead to a satisfactory settlement of the wolfram question without the necessity for continued sanctions. There seemed ample evidence during the second half of January that Jordana was strongly opposing Carceller's policy. The fact is that while the British and United States Governments were agreed on tactics, they still differed in their reading of the Spanish situation. Hoare attributed the wolfram exports mainly to Carceller, the State Department to the studied policy of the Spanish Government as a whole.

Events now moved rapidly. Señor Pan, the Under-Secretary for Foreign Affairs, seemed astonished when Ellis-Rees gave him details of Carceller's bargain on the 18th. Hoare saw Jordana on the 21st, extracted from him a reluctant agreement to arrange an immediate meeting with Franco, and was told emphatically that nothing had been decided and that Carceller had no authority to decide. After this Hoare assumed that no wolfram facilities would be given to the Germans until his meeting with Franco on the 28th. There was, however, an attempt by Señor Fierro, owner of the Santa Comba mine and an associate of Carceller, to stampede the Allies into a deal: he sent two representatives to an Anglo-American meeting on the afternoon of the 25th with a message that he was being ordered to sign a contract with the Germans giving them the whole year's output of the Santa Comba mine (about 120 tons) unless the Allies agreed to buy the output of the mine by the following morning. The British embassy believed that it would be better to have nothing to do with Fierro pending the ambassador's 'trial of strength' with Franco. The Americans, however, insisted that under their pre-emptive instructions they could not risk losing the Santa Comba output, and the two corporations, viewing the matter solely from the operational point of view, were also inclined to treat with him. Hoare at once sent a strongly-worded personal letter to Jordana, which was delivered at the Minister's private house at 2 a.m. (on the 26th). Jordana replied that he was taking action on the letter. Nevertheless, when the Anglo-American Committee met again on the morning of 26th January the majority were still disinclined to take the risk of ignoring Fierro; the Americans, while expressing their appreciation of the British *démarche* of the previous evening, were emphatic that their instructions did not allow any risk of losing the mineral. To avoid the dissolution of the joint Anglo-American effort the British embassy representatives gave way, but they insisted on a limited offer. When the negotiators saw Fierro they offered to take current stocks at 156 pesetas and four months' output at 180 pesetas. Fierro, who had evidently been told to change his tune, did not re-introduce the

subject of a long-term contract or of a bargain with the Germans, and said he would see the Minister at once. It appeared that Carceller kept him waiting for an hour and a half, and then told him to accept the Anglo-American terms. The British embassy was disappointed; it believed that but for the necessity of carrying the Americans it would have been able to get whatever it wanted.

Then on the morning of 28th January Sir Samuel Hoare had his momentous interview with General Franco, in the presence of the Minister for Foreign Affairs. The ambassador began by saying that Anglo-Spanish relations had reached a dangerous point at which it was necessary for the British Government to put its views frankly before the Chief of State, and it asked for satisfaction on four points. These were the detention of Italian ships, wolfram, the Blue Division, and German activities in Spain. Franco seemed anxious throughout to be conciliatory, and to impress on the ambassador his desire to avoid a breach; he did not allude to the suspension of American oil supplies, although he must have known about it. On wolfram, the second matter discussed, he certainly seemed determined to avoid a crisis. Sir Samuel Hoare pressed for the suspension of all licences for export until Allied and Spanish experts had had another opportunity of seeing whether it was possible to reach a practical agreement. He made this suggestion in the hope that if an embargo was found to be impracticable it might, at least, be found possible to restrict German supplies to the 1943 standard, spread over a period of twelve months. General Franco did not give a specific answer to this request, but in the course of the discussion he declared:

that it was not the intention of the Spanish Government to allow the Germans to purchase large stocks of wolfram rapidly and that [the] Minister for Foreign Affairs would have the final word in the allocation and timing of 400,000,000 pesetas to be placed at the Germans' disposal. I told him that I was relieved to hear that no large sales of wolfram to Germany were contemplated in the immediate future and that I therefore assumed that [the] statement made by [the] Minister of Commerce to the Financial Advisor that 250,000,000 pesetas were to be placed at the disposal of the Germans for wolfram in the immediate future was incorrect. General Franco said that the position was as he, General Franco, had described it and that [the] Minister for Foreign Affairs had the last word.

It was this statement which convinced the ambassador that Jordana had gained the upper hand, and that a settlement of the wolfram question satisfactory to Spain and the Allies would soon follow. Unfortunately the news of the oil embargo was published to the world in Washington on the same night. The B.B.C. took the story up with zest, and the chance of an early and discreet arrangement was ruined.

Who 'leaked', and why, was not quite clear. The State Depart-

ment found it impossible to refuse even to discuss the oil question with the Spanish embassy and in fact the matter was explained in blunt language to the Spanish ambassador on the 26th. The Foreign Office expressed its customary surprise that so important a statement should have been made without previous consultation with the British Government, and it instructed the British embassy to confirm that there was no intention to give publicity to the communication to the Spanish ambassador. Lord Halifax replied on the same day that the State Department was already rather apologetic for its haste and agreed that publicity would be undesirable. However, Mr. Gram Swing had already mentioned rumours on the oil question in a broadcast on the 26th. The following morning (28th January) an Associated Press message appeared in the *New York Times* and other papers announcing that oil shipments for February had been suspended, as part of a general reconsideration of Spain's position, and mentioned the 400,000,000 peseta agreement as a severe blow to Allied efforts to reduce German imports. The State Department denied responsibility for the leakage; the British embassy guessed that the F.E.A. was to blame. It was obvious that someone with official knowledge was the source. The State Department then felt compelled to make some authoritative statement, and on the evening of the 28th an announcement was made to the press, on very much the same lines as the unauthorized statement of the previous night. The statement was given out to the waiting press men without consultation with the British embassy, but the latter was able to secure the insertion of a final sentence to the effect that the action with regard to oil had been taken after consultation and agreement with the British Government.

This unexpected publicity had unfortunate results and gave the British Government real cause for annoyance. The Germans were quick to exploit the threat to Spanish *amour propre* and there was a marked reaction against the British and Americans in Spain. The State Department had made no public demand in its press statement for a total embargo on wolfram exports; nevertheless, after the publicity given to the suspension of oil shipments the United States Government made wolfram the main issue. The Spanish Government declined to act under the threat of sanctions. General Jordana explained the Spanish attitude to Sir Samuel Hoare on 2nd February.

He said that my interview had made a great impression upon Franco. They had lunched together afterwards and had a long discussion of my demands, at the end of which Franco said that they were reasonable and must be accepted . . . the American public announcement . . . had entirely changed the situation as any action that they might now make would appear to be the result of an ultimatum and would be intolerable to Spanish pride.

Mr. Hayes does not seem at any time to have believed in the possibility of a complete wolfram embargo. On 3rd February General Jordana told him that the United States Government must make a statement that the oil embargo was temporary and that there was no desire to dictate to Spain, before the Spanish Government could put any counter-concessions into operation. On the same day the Spanish Government issued a communiqué which contained the first official declaration of neutrality since the declaration of non-belligerency made when Italy entered the war. But Mr. Hayes' doubts merely strengthened the State Department's indignation at his lukewarm attitude, and Lord Halifax found on 5th February that both the Department and F.E.A. were now unanimous in their determination to insist on a total embargo of Spanish wolfram exports.

So was the great wolfram struggle launched. There were some rather confused negotiations throughout February. The British and United States embassies in Madrid were seeking a basis of settlement which would ensure a substantial reduction, rather than a complete cessation, of wolfram exports and at the same time enable Jordana to hold his own against his opponents. The British Government was convinced of the necessity for a settlement on these lines; the negotiations were, however, directed by the Foreign Office and not by M.E.W. The State Department maintained its belief that the complete embargo was desirable and attainable, and it was determined to discourage any attempt by Hayes to be satisfied with less. As a result Hayes and the State Department to some extent concealed their real thoughts from each other.¹

General Jordana was given a unanimous vote of confidence by the Council of Ministers early in February, and with the Council's approval imposed an immediate embargo on the export of wolfram while a permanent solution was being sought. Ellis-Rees was told on 4th February that orders to comply with the Council's ruling had already been despatched to Carceller, who had acknowledged that the final allocation of funds available under the civil war debt was to be in Jordana's hands.

Sir Samuel Hoare thought that it would be dangerous to base a permanent solution on the production of German-owned mines, as it would be difficult to fix this with any certainty; he suggested instead 60 tons a month, which represented the actual official release in 1943. If this figure of 720 tons were accepted it would mean that very little wolfram would go to the Germans for some months, as they had already received 300 tons in January. On 11th February however Hayes received instructions to tell Jordana that the U.S.

¹ There is a brief statement of the State Department's case in Cordell Hull's *Memoirs*, ii, 1329-32.

Government still insisted on a total and permanent embargo and that if this were not received the suspension of oil shipments would continue. The Minister replied that the Spanish Government could not act under a threat publicly made against it, and produced no counter proposals.

The impasse seemed complete. Hayes agreed that it was desirable that Hoare should see Jordana in order to make clear the identity of British-American policy, and accordingly on 17th February the British ambassador had a 'protracted engagement of manoeuvre' with the Foreign Minister. While maintaining a solid front with Hayes, Hoare was anxious to avoid driving Jordana into the last ditch 'where he would prefer to die rather than yield an inch' and suggested that they should go over the questions at issue. The discussion which followed showed that the Spanish Government was ready to give the Allies what they asked with regard to the Italian ships, the Blue Division and Air Squadron, and the Tangier and espionage questions; Jordana insisted that it was impossible for the Spanish Government to impose a total embargo on wolfram, but it was none the less ready to reduce export to so low a limit that it would be of no value to the German war effort. Hoare was more than ever convinced that it was impossible to secure a total permanent embargo, but that the Allies could gain the substance of their objectives if they did not insist on the actual form. He was convinced that Hayes agreed with this view. On the 18th, however, the State Department instructed Hayes to inform Jordana that the U.S. Government saw no object in continuing the present fruitless discussions until the Spanish Government changed their minds and agreed to the Allies' demands.

So categorical a message, which seemed to slam the door in the face of all compromise, produced immediate protests from the British embassy in Washington, whose representatives expressed amazement that it should have been sent without prior consultation with the British Government. The State Department would not, however, agree to instruct Hayes to suspend action on the telegram. Early on the 21st, after consulting the Prime Minister, Mr. Eden sent a telegram pointing out that Spain had now promised satisfaction on all the outstanding non-economic questions, and that Jordana had undertaken to consider Hoare's proposal that the Spanish Government, while maintaining in theory its sovereign rights, should in practice cut down wolfram exports to a point that would make none available for the next six months. The British Government thought that a settlement on these lines should be reached immediately. The Prime Minister telegraphed the President on the same day recommending immediate action to clinch matters with the Spanish Government. But in the State Department Mr. Dunn, while agreeing that the

proposals represented a 'distinct advancement' and that if wolfram export were in fact stopped for six months it would not be necessary to insist on the declaration of an embargo, was not prepared to hold up the instructions to Hayes until Mr. Stettinius had seen the President. Hayes duly saw Jordana on the 21st; Jordana regretted the rigidity of the American attitude, but tentatively offered a limit of wolfram exports to Germany to perhaps 10 per cent. of total production, the balance to be bought at a reasonable price by the Allies. Hayes said that nothing short of a total permanent embargo would suffice, but he promised to report the Minister's views to his Government, and the President agreed to a settlement in these terms on the 23rd. A carefully-worded reference to Spain in Mr. Eden's speech on the same day in the Commons was well received by the Spanish press. It was, he said, considered time to ask Spain to take a stricter view of her obligations, but Britain had no desire to see her anything but prosperous and peaceful. On the 25th Jordana wrote to Hoare expressing 'great satisfaction' at the tone of the speech and reaffirming the intention of the Spanish Government to put fully into force the measures that the British were proposing.¹

Thus once again the stage seemed set, as it had been at the end of January, for a face-saving performance which would satisfy the Spanish Council and still give the Allies the substance of victory. And for a second time injudicious publicity in Washington postponed production. An article on the front page of the *New York Times* dated Washington, 21st February, said that Washington wanted 'unconditional surrender'; the State Department had that day decided to continue its oil embargo during March, and had prepared a list of further economic sanctions to be used if necessary. The article went on to list more or less correctly the demands made by the Allies to Spain, and the Spanish steps to meet them. The State Department agreed that a most unfortunate leakage had once more taken place, expressed regret, undertook to try to trace the leakage, and promised that O.W.I. would not use the article in its Spanish broadcasts. But by 27th February the Germans were again putting strong pressure on the Spanish Government. The German ambassador made a violent protest to Jordana, who, although considerably shaken by this message, nevertheless told Hayes on the 28th that he did not withdraw from the 10 per cent. proposal; he said, however, that the *New York Times* disclosure would make it necessary for him to consult the Council of Ministers. The German ambassador saw Jordana after Hayes' visit; Hoare therefore saw Jordana in order to try to counteract the German pressure. After this a week went by without news; but finally Jordana had to tell Hayes on 7th March that the Council

¹ Piétri (*op. cit.*, p. 236), says that the speech made the Spaniards intractable, but this does not seem to be borne out by the British sources.

were unable to accept either the 10 per cent. proposal, or any proposal which meant a total embargo on wolfram exports to Germany in 1944. He urged the resumption of oil shipments to break the deadlock: but the Americans again refused.

No further progress was made for some weeks, and then the wearisome search for a formula began for a third time. Clearly several factors had entered into the defeat of Jordana's plans—some desire to help Germany, some genuine fear of German reprisals, unwillingness to accept the indignity of complete surrender to America's much-publicized sanctions, Carceller's desire to secure control of the wolfram negotiations; an intensification of Allied pressure, together with the rapidly-improving fortunes of the war, might have produced a complete Spanish surrender in time, but it seemed to the British Government that the real problem was to decide whether the Allies could afford the time. The State Department, which continued to argue that, if the Allies stood firm, victory in the wolfram struggle was certain sooner or later, seemed to have little awareness of the importance of the time factor. At the end of March Lord Halifax reported that the State Department was still 'quite prepared to sit back and wait until the time comes when, as they anticipate, the Spanish Government will be compelled to climb down'.

And yet an intensified blockade might produce an impasse with serious consequences in four possible spheres. (1) At the moment there were 700 tons of wolfram purchased by the Germans within a hundred yards of the frontier at Irun, and the Germans had been actively buying substantial quantities of wolfram in recent weeks at the chief producing centres. There were, therefore, quantities equal to their 1943 exports ready to leave Spain as soon as the negotiations broke down and the temporary ban on exports was lifted. (2) The rupture of the negotiations would certainly embarrass Great Britain in other economic fields. Supplies of Spanish ores were necessary to maintain the British iron and steel output; British agriculture would suffer from shortage of potash. (3) Allied economic relations with Spain generally would be at a standstill in a few weeks; with the loss of peseta payments and other exports and with the withdrawal of the financial facilities granted in the autumn of 1943, the Allies would have no financial resources for buying wolfram or anything else at the end of the month. (4) In the battle for a limited amount of wolfram there was a risk of losing other gains, such as the closing of the Tangier consulate and the destruction of the German espionage network.

In the end the British view prevailed, but the State Department, convinced against its will, was of the same opinion still. The Council of Ministers had left the door open to the extent of appointing a technical committee presided over by the Under-Secretary of State

to check actual figures and see whether agreements were possible on restriction.

Ackerman and Ellis-Rees were allowed by their ambassadors to confer with this committee. But the State Department was still unwilling to compromise. Elaborate American proposals for short- and long-term agreements were sent to Hayes on 24th March, but in a code not possessed by the United States embassy in Madrid, so that Hayes could not study them until 30th March. He agreed with Hoare that they amounted to a demand for a total wolfram embargo both before and after 31st July, and seemed 'considerably bewildered by them'. Various forms of a compromise settlement were however under discussion in Madrid throughout March. The Spanish insisted that they had given definite promises to the Germans to allow them 209 tons during 1944, in addition to the 300 which they had received in January 1944 (which had in fact been licensed in 1943). The Portuguese ambassador confirmed that it was this 209 tons more than anything else which had hitherto prevented agreement. Carceller recommended to Ellis-Rees on 20th March a settlement on the basis of the 209 tons. The Spanish experts on the wolfram committee then proposed a settlement on the basis of the German wolfram imports for 1943; these were 755 tons, which would mean 377 tons for each period of six months in 1944. As Germany had received 300 tons in January she was entitled to a further 77 tons up to the end of June. At the second meeting of the committee (on 24th March) the Spaniards, in view of earlier commitments to Germany, said that they could not restrict exports to less than 50 tons a month (i.e. 150 up to 30th June), although the Ministry of Commerce would make use of typical Spanish methods of delay in giving export permits to Germany, and would make any smuggled exports count against the German export permits.

But the State Department was unwilling to agree even to an export of 77 tons to Germany up to the end of June, and Lord Halifax reported on 26th March that Mr. Acheson and Mr. Dunn, responsible for the economic and political sides respectively, were inclined to be even tougher than those below them. It was at this point that the British Government, satisfied that the Spanish figures offered a reasonable basis for compromise, decided that it must throw its whole weight in favour of an agreed and speedy settlement. On 30th March Mr. Churchill telegraphed personally to the President urging him very strongly to agree to an early compromise solution, and Lord Halifax followed this up in a conversation with Mr. Hull on the 31st complaining of the rigidity of the United States Government; he also said that the American attitude seemed to be dictated by ideological considerations and to be a bad example of taking the eye off the main issue of the war. These remonstrances were taken

in good part. Mr. Hull seemed 'clearly impressed', and sent an instruction to senior State Department officials asking that every effort should be made to reverse the current tendency towards increased divergency between American and British views on a number of questions. Mr. Hayes also sent a strong personal appeal to Mr. Hull on 31st March, and a telegram to the State Department suggesting an agreement on the basis of 600 tons for 1944. And finally the President gave the word. In his reply to Mr. Churchill he said that while reluctant to accept any compromise he appreciated the necessity for full Anglo-American agreement on future policy and had asked the State Department to work out with the British embassy a mutually-agreeable line.

The first substantial step forward was taken on 4th April, when the Department agreed to a total export from Spain to Germany of 600 tons in 1944, of which the 300 tons already exported in January should count as covering the first half of the year. But it proved impossible at this stage to secure acceptance of the further British proposal that latitude should be given to the Allied negotiators in Madrid to allow some small exports, not exceeding 50 tons a month, up to the end of June, if Spanish agreement were otherwise unobtainable. The American officials emphasized their vulnerability to public and political pressure; any settlement which allowed the resumption of oil shipments to take place simultaneously with a resumption of wolfram exports would have the worst possible effect in the States. Jordana insisted that in view of the Spanish-German agreement it was impossible to accept a complete embargo up to the end of June; on the other hand he gave categorical assurances of agreement to the Anglo-American programme on all other points—the Blue Division, espionage, Tangier ships, wolfram smuggling, Allied facilities for purchases. For a quick settlement he offered 600 tons for 1944, with three months' exports of 60 tons up to 30th June (15 tons for April, 20 for May and 25 for June). Sir Samuel Hoare thought this a really satisfactory proposal. But still the State Department could not agree to any exports before June. Mr. George, an official of the State Department, who had just arrived in Madrid, told Mr. Hayes that the oil embargo was a well-merited punishment for the way in which Mr. Weddell had been treated by Señor Suñer. Perhaps this was not intended to be taken quite seriously, but Mr. Hayes, who seemed 'greatly disturbed', told Sir Samuel Hoare privately that desire for revenge, added to a general hatred of Spain, seemed to be the real cause of his Government's attitude. The State Department continued to insist that 'complete victory' was near. The ambassadors were convinced that Spanish pride and fear of German reprisals necessitated the continuance of some nominal wolfram exports, that Jordana's position was rapidly weakening, that the

essentials of victory had already been secured, and that in any case the Allies themselves could not afford to continue the impasse much longer.

And it was indeed true that in the pre-emption field Allied efforts in Spain were now almost at a standstill through lack of funds. The Germans were becoming more and more active and seemed prepared to run any financial risk to encourage their suppliers; it was estimated that in February they obtained about 135 tons of 65 per cent. mineral. Full-scale Anglo-American pre-emption had continued since January at the request of the Americans, who had received instructions from Washington to acquire every available ton of wolfram: they argued that this policy would reduce the amount of wolfram available to the Germans and make it easier for the Spaniards to agree to the Allies' request. By mid-April, with funds nearly exhausted, the U.S.C.C. tried to borrow 200 million pesetas from Spanish banks and when this was refused the embassy cabled to Washington for fresh instructions. By 26th April no fresh instructions had been received and the two corporations, seriously concerned over the financial situation, pressed for a meeting of the Anglo-American Economic Committee. The British embassy, however, believed that the wolfram dispute was on the point of being settled and no meeting was held. On 27th April the two corporations again asked their embassies for permission to cease buying; the British embassy would have been only too glad to agree, but the United States embassy held out for a further twenty-four hours, still with the hope of receiving a new directive from Washington. On 28th April the situation had become so serious that all Allied warehouses were ordered to close down until further notice. No information was given to the public as to how long they were likely to remain closed.

Fortunately the United States Government had, by this date, at last come to terms. It had become abundantly clear during April that the outstanding obstacle to agreement was its desire to justify itself before American opinion in an election year. In his radio speech on 9th April Mr. Hull, far from attempting to enlighten the public as to the real complexities of the Spanish situation, said that the need for compromise with the neutrals was rapidly drawing to a close. On 10th April Mr. Acheson told the British ambassador that the State Department had for some time been under heavy attack but that Mr. Hull's speech had done much to relieve the position: to allow oil shipments while condoning wolfram exports would undo all the good achieved by the speech and would have the worst possible effect on public opinion at a time when this could be least afforded. The New York paper *P.M.* was running a violent campaign against all American dealings with Franco. On 17th April Mr. Hull told Lord Halifax that the resumption of oil shipments without a tem-

porary total embargo on wolfram was most 'terrific dynamite' at the present time as all 'polecat' elements were doing their best to destroy the President and the administration.

Mr. Hull then made a suggestion which he thought offered the only way out of the difficulty. This was that Great Britain should take over the supplying of oil to Spain, in return for the wolfram concessions which Spain was now prepared to make. He promised that the United States Government would go as far as it could to justify this action to the American public, and would emphasize the closeness of Anglo-American collaboration and the special strategic interests and supply needs of Britain in Spain. Lord Halifax said this amounted to an invitation to Britain to hold a troublesome baby: he could readily anticipate that the American public reaction would once more be to proclaim American devotion to moral principles as compared with British opportunism. However, Mr. Hull could not be shaken, and Lord Halifax thought it unlikely that the Americans would shift from this position. On 21st April the British Government accepted Mr. Hull's proposal. But on the following day he changed his mind, and in spite of all counter-arguments insisted once more on seeking a total embargo up to the end of June. The State Department officials were believed to dislike the proposal. Mr. Hull explained to Sir Ronald (Ian) Campbell, that Mr. Ickes, the Petroleum Controller, might make trouble over the oil plan; furthermore, Hayes had reported on 20th April that with a little further pressure Spain could be brought to agree to the total embargo up to 30th June. 'This is all perfectly maddening,' wrote Halifax, 'but I am satisfied that Campbell employed every argument short of physical torture.'

Another reason for the American change of front was no doubt the fact that a long-standing deadlock existed over the refusal of the U.S. authorities to agree to Shell's participation in the Spanish oil programme; the carrying out of Hull's plan would have meant an American surrender on this complicated issue. Hoare was surprised to hear of Hayes' statement, for the American ambassador had shown no such confidence to him in Spain's surrender; he made the comment that this seemed to be the first occasion in this controversy on which the State Department had paid any attention to Hayes' views. Jordana was in despair. However, on the 25th, following a further message from the Prime Minister to the President, and in view of the extreme practical difficulties which would arise if the British Government took over the supply of oil, the State Department finally agreed to waive the demand for a total embargo before the end of June. It hoped that the final settlement would be based on an arrangement which Carceller had just suggested to Hayes and which Franco was said to have approved, whereby wolfram exports to the Axis for the remainder of 1944 would be limited to 280 tons

in all, of which not more than 20 tons would go in each of the months of May and June. Hayes was also to demand the expulsion of the Japanese military attaché and his staff from Tangier.

After this the State Department again shook everyone's nerves by instructing Hayes to make a further demand for a total embargo and for an interview with Franco. But when Hayes saw Jordana on the afternoon of 28th April the Foreign Minister played his cards better than usual; he said promptly that the Spanish Government was unanimously against an embargo, and Hayes at once made a counter-proposal of 40 tons up to 30th June, which Jordana quickly accepted. The terms of the agreement were set out in letters from Hoare and Hayes to Jordana on 1st May; Jordana confirmed them on the 2nd. The Spanish Council agreed to 40 tons up to 30th June, and 240 tons for the subsequent six months, together with all the other concessions over such matters as Tangier and espionage for which the Allies had been pressing. The short announcement agreed to by the British and United States Governments and issued in Washington said that although agreement had been reached on a basis of less than a total embargo on wolfram exports, this action was taken to obtain an immediate settlement on the urgent request of the British Government.

(iii)

Supply-Purchase, May–August, 1944

So ended the acute phase of the Spanish wolfram question. But there were other economic-warfare problems which needed close attention until the closing of the Franco-Spanish frontier on 21st August. The Allies wanted further restrictions; the Spanish needed increased supplies and some means of mollifying the Germans; the Germans made the best of a bad job by pressing for concessions in compensation. The British Government's anxiety to avoid a prolonged deadlock and the suspension of all economic relations was strengthened by the continued need for Spanish supplies—iron ore and potash for Britain, pyrites and cork for the United States. The supply-purchase programme for the first half of 1944 was already in informal operation, and it was the British desire to clear up all the outstanding blockade points as soon as possible, both in the interest of the supply programme and to ensure Spanish goodwill in carrying out the agreement of 1st May.

There were again some differences of opinion between London, Madrid, and Washington on the question of tactics. For while the British tended to regard the wolfram agreement as a victory, the Americans looked on it almost as a defeat, and were readily convinced

that what had been achieved in the Allies' dealings with Spain and the other neutrals was almost entirely due to American persistence and determination. This pointed to the fitness of a yet tougher policy in future. Beyond this were the broader political and economic issues. In an election year the United States Government and departments were no doubt susceptible to any murmur of appeasement criticism; but this is not the sole explanation, for to a large extent the officials themselves shared the popular animosity to the Franco régime, saw it as the embodiment under the arch associates of Hitler and Mussolini of the principle of dictatorship against which America was fighting, and believed it in any case to be doomed. They were strongly opposed to anything that might prolong its life. But the immediate aim of the British was to encourage Spain to move further into the Allied fold by extending the economic exchanges. Spain's internal problems, as Mr. Churchill stated vigorously in the Commons on 24th May, were her own concern; the agreement of 1st May was an outstanding Allied victory without any affront to Spanish dignity; increasingly friendly relations between the two countries could be anticipated. The speech certainly shocked many Americans, and not a few Englishmen too.

This did not mean that the Ministry had any illusions about the need for continued hard bargaining. The British embassy in Madrid caused some confusion during May by assuming that the quotas would be reopened immediately without any bargaining, although negotiations might take place afterwards over further Spanish restrictions on exports. The Ministry thought that the oil embargo should be immediately cancelled but did not intend to agree to the new quotas without an adequate *quid pro quo*. In a review of the prospects early in April it had decided that if Germany pressed for increased supplies to balance the loss of wolfram it would offer no particular objection in the case of iron ore, mercury, lead, essential oils, oranges, wine, and brandy, but would refuse to agree to increased allocations of skins, olive oil, and woollen textiles. During April the Spanish had shown their concern at the failure to establish the 1944 quotas for cotton, hides, and vegetable oils, and on 4th May Carceller made proposals to Ellis-Rees for agreement on these commodities. The embassy had decided by this stage that it was impossible to ignore Carceller, who controlled money, ships, and export licences, although it would continue to deal with the Spanish Foreign Office on the general principles of the economic programme. On the 4th, Carceller, 'very friendly and subdued', repeated an earlier offer to prohibit at once all further exports of woollen textiles to Europe in return for Allied help to put the industry 'on its feet voluntarily'. He asked for permission to import raw wool at 1,500 tons a month, and offered bargains over olive oil and skins. The British embassy

thought that as Carceller was in an unexpectedly cooperative mood, it was best to strike while the iron was hot; it urged the early release of rubber. The Americans were unenthusiastic, and grumbled that the British were 'rather extravagant with our bargaining power'; they were reported on 16th May to be reluctant to agree to Carceller's bargain, although they proceeded to make counter offers, including 25,000 tons of cotton and perhaps a little synthetic rubber. However, it seemed a good sign that the State Department had gone this far; a few weeks earlier it had been unwilling to make anything but destructive proposals about Spanish trade.

Nevertheless, the Americans were in no hurry to restore the oil imports, and this was disquieting in view of the genuine efforts that Jordana appeared to be making to carry out the wolfram agreement. He was believed to have secured full powers from Franco to put the necessary measures against wolfram smuggling into force, and to have written letters to the departments concerned explaining what the agreement meant to Spain. Instructions had also been sent to Tangier for the closing of the German consulate; General Orgaz seemed determined to procrastinate over this, but it was hoped that an 'extremely severe' telegram from Jordana on 17th May demanding the prompt departure of the German personnel would have the necessary effect.¹ The Spanish wished to make good the oil losses of the previous four months, that is, to receive extra supplies to bring their stocks up to the February figure of about 71,000 tons. The Ministry saw no objection to this course, although it did not consider that the permissive stock limit of 94,250 tons under the Petroleum Programme need be restored. The State Department's intention was to adjust authorizations so that the level of 1st May was retained. On 15th May the United States embassy in Madrid was told that nominations for both 1st and 11th of June would have to be cancelled owing to supply reasons. This led Mr. Yencken (Sir Samuel Hoare was in London) to suspect a move 'by unrepentant subordinate officials in Washington to put further pressure on Spain', but the British embassy in Washington thought that the supply reasons were genuine—there had been heavy liftings to meet the British and American war requirements.

As it happened, Mr. Berthoud of the Ministry of Fuel and Power was in Madrid,² and he knew that British supplies for two of the four Spanish tankers were available. He advised that loadings from British sources at Curaçao should be maintained, taking the line, with the full support of the British authorities in London, that the Americans must have misunderstood the supply position. This at-

¹ This was, however, only the beginning of a long struggle against Spanish departmental obstruction. Cf. Hoare, p. 268.

² He visited Madrid from 10th–24th May to report on the situation prior to the appointment of a permanent British oil attaché at the embassy.

tempt to force the American hand somewhat embarrassed the British officials in Washington, who were in the midst of the struggle against the American contention that Shell had no right to supply the Spanish market at all. As the whole Caribbean formed a U.S. naval sphere of action it was impossible in the last resort to defy the American naval authorities. Furthermore, as the British were receiving millions of barrels of American oil under lend-lease, it was obviously impossible to take a completely independent line. On the other hand the Americans were very much in the habit of making decisions on Spanish oil questions without previous consultation with the British, who were generally informed *ex post facto*, although by this period the British contribution had become almost the same as the American. The current crude 'throughput' of the main refineries in the Caribbean area was 1,200,000 tons per month from Aruba (American controlled), and 900,000 and 250,000 tons a month from Curaçao and Trinidad respectively (British controlled). In any case the total monthly Spanish requirements from the Caribbean area were only about 2 per cent. of the combined output. However, the State Department responded satisfactorily enough to this 'shake-up' and as a result it was, after all, found possible to arrange loadings for all four tankers in accordance with the original nominations.

The State Department continued to insist on the 1st May stock level, with the minor addition of 5,000 tons of gas oil, making 58,000 tons in all; Spanish loadings were not to exceed 14,000 tons on each loading date, and consumption in Spain must be normal. It was, however, willing to recognize that seasonal demands and bunker requirements justified some elasticity in the actual level. The British authorities were convinced that this figure was too low, but the subsequent discussions take us outside the economic-warfare story.

The supply-purchase programme also ran into difficulties, but the landing of the Allies in France and the progress of their arms during the following weeks rapidly reduced the economic-warfare significance of this long-term planning.

The remaining economic-warfare problem was the smuggling of wolfram into German-occupied territory, a matter of considerable concern for the British and American embassies until the closing of the Spanish frontier. The Spanish Government was persuaded to agree in May that reporting officers, who could act for the British and United States Governments in cases of emergency, should be appointed to the main sea ports along the northern coasts; these were recruited in the main from British and United States consular officers, and U.K.C.C. representatives in the area were also asked to help. The Allies had good information from their secret sources about German plans. But although General Jordana and senior officials of the Ministries of Foreign Affairs and Commerce seemed

genuinely anxious to carry out this part of the agreement, no effective machinery was ready for the purpose and the frontier was not easy to control. On 12th June Sir Samuel Hoare, after telling General Franco bluntly that the British people detested Falangism, and had grave doubts as to the possibility of cooperation with a régime so closely associated with Britain's enemies in Europe, went on to complain of the Spanish failure to implement the agreement with regard to wolfram and the expulsion of German agents. The chief complaint on the former ground was that on 28th May four lorries had left Irun by night and crossed the frontier by the unfrequented Behobia bridge. During the next few days the Spanish Foreign Office admitted that the wolfram so exported could not form part of the monthly quota of 20 tons, as this had already left. The British embassy pressed for a ban on all further exports until the matter had been cleared up.

The Ministry was worried lest the Americans should seize on the incident of the four lorries to re-impose the oil ban and demand a total embargo of wolfram. By the end of June the Spanish authorities had gone a long way towards meeting the British demands, although by this stage the Germans had succeeded in smuggling 150 tons; the German quota for June was suspended, and on 28th June the Spanish Foreign Office promised that German stocks held at Irun and Campanas would be removed by train under military guard within seven days. The Spanish authorities also showed commendable promptitude in dealing with an attempt to smuggle by sea a small quantity (four tons) of wolfram, probably of Portuguese origin, on a Spanish ship. On 7th July it was learned that this further request had been accepted—the Consejo Ordenador had been instructed to remove all stocks within a week. The good effect of this accommodating attitude was however somewhat marred by the Spanish delays in completing the removal. A further attempt was made by the Germans to move 20 tons of wolfram from the Marion Garage at Irun on 8th July; this was frustrated by the commandant of the civil guard at Irun, acting on the representations of the United States vice-consul, and the wolfram was seized. On 12th July it was learned that 'owing to inter-departmental difficulties' the Consejo had still not made loading arrangements for removal. On 14th July M.E.W. received information from a very secret source that the U.S. ambassador, Mr. Hayes, was planning with the Spanish authorities a deal, which he proposed to conceal from the British ambassador, whereby, in return for a complete wolfram embargo, the United States would increase American supplies to Spain and deliver hydro-electrical equipment. Sir Samuel Hoare was annoyed at what he called 'another instance of the clumsy and often hostile attitude' of the American ambassador, 'evidently anxious to claim for himself a success that if achieved will be the result of our joint effort'. If Mr. Hayes was

indeed planning to steal a march on the British, nothing came of the attempt, but the incident may account for the vehemence with which Sir Samuel Hoare on 19th July denounced to Jordana the Spanish Government's procrastination over wolfram and the expulsion of German agents.

However, events and the wolfram now began to move. Six members of the Civil Guard were dismissed and a lieutenant sent to a fortress for the affair of 28th May, and by 25th July it was known that the wolfram was definitely being loaded and checked for immediate removal to Madrid. By 25th August the whole of the German stocks, amounting to 1,031 tons of wolfram, had been removed from Campanas and Irun and were under guard in two warehouses in Madrid. But by this date the whole of the frontier was in French hands. The Germans had undoubtedly smuggled wolfram on a large scale over the previous few months, and the suspension of the June and July quotas represented an entirely inadequate compensation for the amounts that had been got away. Just before his death on 3rd August Jordana gave orders that the August shipment was to be suspended.

During the negotiations which preceded the agreement of 1st May the Spanish Government had pressed for undertakings that if any restrictions of wolfram exports to Germany were introduced the Allies would continue their purchases in order to avoid a sudden dislocation of the industry and the consequent loss of production taxes and foreign exchange. The British and Americans, however, refused to give such an undertaking; they did in fact continue to make certain purchases where there were contracts to complete, but the volume of purchases, in comparison with those of previous months, was small and no further deliveries were accepted after 15th June. The Spanish Government was told that once exports were restricted and trade could be resumed on a normal basis the foreign exchange lost through the cessation of the wolfram campaign could quickly be replaced through purchases of other goods. When the Allies ceased buying wolfram the Spanish made no more requests for further purchases and the market collapsed.

CHAPTER XX

PORTUGAL

(i)

Alliance and neutrality, 1943

FOR Portugal, as for Spain, wolfram was the dominant economic-warfare problem in the last phase of the struggle. But the complexities of the political and economic relationships of the Allies with the Portuguese delayed the final showdown on even this issue until 1944. Dr. Salazar was no doubt conscious of the need for some readjusting of the delicately balanced neutrality whereby Spain, the Allies, and the Axis had each been kept in reasonable humour; as the Axis menace receded a rather more open friendliness towards the Allies became possible, and the opportunity to strengthen his standing with Spain could be seized. After a visit by General Jordana to Lisbon late in 1942 a Spanish-Portuguese trade agreement was signed early in the new year, providing for the exchange of merchandise to an equivalent value of 240 million escudos by each country, and the British ambassador noted that with the improvement in Allied fortunes Dr. Salazar was no longer in the uncomfortable position of straining at the Spanish coat-tail. In a broadcast speech on 27th April 1943 celebrating the fifteenth anniversary of his taking high office Dr. Salazar not only referred to Portuguese neutrality, the alliance with Great Britain, and the friendship with Brazil, but also spoke of the 'precious support' found in the policy of friendship with Spain. The Allies had their concession in the Azores agreement, signed on behalf of Great Britain and Portugal on 17th August 1943. All this, however, if it showed a wise opportunism, also had its dangers; Germany could still retaliate; and so the economic advantages which had hitherto been Germany's chief war-time gain in Portugal must continue. Besides, Dr. Salazar disliked both the policy and the Ministry of Economic Warfare; he had no desire to lose prematurely the real but precarious prosperity of the war years; with considerable subtlety and some genuine passion he maintained the rightness of a neutrality which extracted abundant profits from both sets of belligerents.

In short, political concessions to the United Nations would tend to be balanced by economic concessions to Germany; the knowledge that he was doing something for Britain as an ancient ally would

make it necessary for him to do something for Germany as a good neutral. The alternating concepts of alliance and neutrality were confusing, but it is sufficient to say that they did not point to any improvement in the economic position of the Allies during 1943.¹ It will be remembered that the British and United States Governments had not been very happy about some of the terms of the supply-purchase agreement, which had been concluded on 23rd November 1942. Germany had been particularly favoured over the most important item, wolfram, the subject of the separate agreement of 24th August 1942; the price discrimination of the C.R.C.M. meant that the Allies were paying heavily without having the satisfaction of knowing that the enemy was going short. As Dr. Salazar claimed that his hands had been tied by his secret wolfram agreement with the Germans of January 1942 the immediate aim of the Allies was to secure more favourable terms when this agreement expired on 1st March 1943. It was hoped that this would be secured as part of the general improvement in relations that should follow the supply-purchase agreement and the war-trade agreement of 28th November 1942.²

But almost at once there was heavy weather over the application of the agreement, and amid considerable bickering over a number of points the hopes of a calmer phase receded. The most important of these points, that of surcharges, even produced accusations of bad faith against the Allies. Although there was no possibility of bridging the gap between the cost of Allied purchases in Portugal and the value of Allied supplies, it was decided to impose such charges on certain products, partly to avoid discrimination between Spain and Portugal, partly to balance the Portuguese export tax on wolfram and tin. The Portuguese authorities did not deny that during the negotiations for the supply-purchase agreement the Allied delegation had given a warning that the prices of some goods supplied by the United Nations would have to be raised. But when faced with a specific increase in the price of copper sulphate to £80 a ton Colonel Fernandes protested sharply at a meeting on 31st December 1942, urged reconsideration, and hinted at reprisals. An official letter of protest was handed by the Portuguese ambassador to Lord Drogheda on 14th January 1943; it suggested that surcharges were contrary to the spirit of the supply-purchase agreement, that the negotiations had given rise to the expectation that prices would be stabilized at levels as near as possible to those obtaining before the war, and that

¹ Sir Ronald Campbell's view on 10th January 1943 was that Dr. Salazar would carry on much as before, unless and until the British Government were to decide to invoke the Anglo-Portuguese alliance. He believed, with his predecessor, that Dr. Salazar was fundamentally loyal to it and 'would answer the call if it were made on grounds of dire necessity'.

² See Chapter XI above, pp. 336-42; *The Memoirs of Cordell Hull*, ii, 1336.

any increases would merely arise from the need to maintain in the external market prices not inferior to the cost of production. A note from Dr. Salazar of 16th January, on the same lines but in tart and didactic terms, was received by Sir Ronald Campbell and Mr. Fish (the United States minister) a few days later. Reprisals were again threatened: failing prompt and precise definition of prices in harmony with statements made during the earlier negotiations, 'it would become impossible for the Portuguese Government to carry out the Agreement on its part within the spirit that presided at the negotiations'.

Dr. Salazar indeed accused the two Governments of intending to raise the prices of a few commodities so as to eliminate entirely the margin of some £10,000,000 in Portugal's favour between the Anglo-American purchases and total sales. The two Governments had had no intention of going so far as this, and were sure that they had a perfectly good case on both 'moral and legal' grounds,¹ although they began almost at once to ask whether it was advisable to make a stand. As a start, however, their representatives were instructed to refute the charge of bad faith and to explain the anomalies of the price position. All United Kingdom and United States prices for scarce raw materials were non-commercial; sacrifice was always involved in parting with them; no single Portuguese ship was going to the United Kingdom, and all goods exchanged between the two countries were being carried in British ships which would otherwise be helping the war effort more directly; official British controls ensured the maintenance of lower freights than war conditions would justify. Whereas the various British control measures had prevented prices from running away, price-pegging in Portugal had taken place only after prices had already reached an abnormally high level. Facts and figures showed that Allied increases were fully justified by the increase in Portuguese prices aggravated as they were by the heavy export tax on tin and wolfram. All the proposed Allied increases added together would amount to very much less than the profits accruing to the Portuguese Government from these tin and wolfram export taxes and the differential prices for Beral production.² Finally, however, Dr. Salazar was to be told that the two Governments were not wedded to the idea of price increases, and

¹ The United States Government regarded the need for escudos as the main purpose of price raising. The Portuguese were raising no difficulties at this time about finance, but might do so later. As the sterling and dollar balances grew, they might be less willing to give exchange facilities. Surcharge was desirable in order to keep in touch with practice in Spain. It would be a sign of weakness to retreat. There was no justification for Portuguese profits by Allied controlled prices when Portuguese prices and export taxes were exorbitant.

² It was further pointed out that in the first seven months of the agreement period, i.e. before any increases were made in Allied supplies to Portugal, the Portuguese Government had already collected from the British 111,000,000 escudos, or more than £1,000,000 on wolfram alone. It was calculated that during the whole period of the agreement the

had only decided to embark on them when it had seemed that there was no alternative. This was a broad hint that the prices and the export taxes on tin and wolfram were too high.

At no time had Dr. Salazar objected to all Allied price raising, and the best plan seemed to be to ask him for counter-proposals. It was the normal Portuguese practice to haggle to the end of these economic negotiations, leaving the British and the Americans to make more and more minor concessions in order not to risk losing advantages which a settlement might give in other and more important fields. But it seemed also on this occasion that Dr. Salazar was smarting under a sense of having been outwitted if not deliberately deceived; and that his justifiable pride in his negotiating skill had been wounded. Sir Ronald Campbell and Mr. Fish saw him on 20th February, and after the British ambassador had given all the arguments at length and after he and the American minister had each handed over an *aide-mémoire* the interview appeared to be over, Dr. Salazar not having once 'broken his grim silence'. But after some prodding he began to speak, 'quietly at first but gradually working himself up into a state of high indignation'. However, his argument that the Allied increases 'lacked objectivity' and that it was the method of their application rather than the degree that he found displeasing opened the way for the reference of the matter to the Mixed Commission.¹ There were some further displays of Portuguese indignation and some further whittling down of the Allied figures. There had been indications that Dr. Salazar would be satisfied if the surcharges on petroleum and copper sulphate were reduced from 100 to 50 per cent., and an offer was made on those terms. Instead of accepting it the Portuguese raised the question of the proposal to surcharge tyres to an extent necessary to cover the price which the Allies would have to pay for Portuguese rubber. In effect they were being asked to supply tyres to Portugal at less than the normal export price, while paying twice the proper price for Portuguese rubber. The British ambassador was told to stand firm on this point. Finally, after a *pro forma* observation by Colonel Fernandes that the Allied proposals did not give the conclusive criterion on prices which the Portuguese Government had requested, the Allied figures, including those for tyres and rubber, were accepted by the Portuguese at a meeting of the Mixed Commission on 29th April 1943.² The

Portuguese export tax receipts and profits on wolfram and tin would amount to over £2,380,000 as against total price increases on supplies from the United Kingdom and United States amounting to under £1,000,000.

¹ Set up under the war-trade agreement of November 1942, but dealing in practice also with questions arising out of the supply-purchase agreement. It was composed of British, Portuguese, and United States representatives.

² Ammonium sulphate, \$90 a ton f.o.b.; copper sulphate, £60 (sterling) a ton c.i.f.; petroleum products, 50 per cent. above ordinary market prices. Increased freights would be necessary on coal and coal tar pitch.

surcharges were finally lifted in June 1944, after the Portuguese Government had placed its embargo on wolfram.

The problem of surcharges touched the blockade only indirectly, and has been mentioned here because it partly explains the renewed Allied disappointment over wolfram. There were other causes of dispute early in 1943 which perhaps contributed to this result. One arose from the wish of the Portuguese to acquire for their rather depleted merchant navy certain German ships in harbour in Angola and Mozambique. In return, the British Government would obtain the transfer to British flag of certain British-owned tugs and barges which were flying the Portuguese flag and were precluded by Portuguese regulations from sailing to South African ports; it would also secure the guaranteed use of a considerable block of Portuguese tonnage for the carriage of parcels for prisoners of war. Negotiations had been proceeding on these lines for some months, and had reached a temporary deadlock in February 1943. The Germans made it a condition that the crews of the German ships should be allowed to return home. The Admiralty were strongly opposed to this, unless a corresponding number of British seamen in German hands were repatriated. The Portuguese declined even to put this suggestion to the Germans. While the position was being considered in London, the head of the Portuguese Mercantile Marine Junta addressed an ultimatum to the Ministry of War Transport's representative at Lisbon to the effect that all Portuguese ships working for the Red Cross would be withdrawn unless within five days the Ministry consented to the transfer of the German ships and of a block of Italian tonnage, not previously mentioned. The ultimatum was ignored; when it expired the Portuguese really began to carry out the threat. Only after a strong protest from Sir Ronald Campbell and a warning that the British Government would not continue the negotiations until the Red Cross ships had been restored was Dr. Salazar able to find a way out of the difficulty; he persuaded the German minister to agree to the repatriation of the seamen on a reciprocal basis, thus meeting the original British demand without giving any promise about the Red Cross ships. It was, however, not until May that the negotiations were concluded by an exchange of notes.

There were also difficulties over the Portuguese refusal to implement the promise of the Director of Fuel that 3,000 tons of bunkers should be laid down in the Azores for the use of the Allies, and a long-drawn-out argument over the export of hides and skins. The Portuguese, in what seemed to the Ministry to be a plain violation of the supply-purchase agreement, insisted in February on issuing licences for 50,000 skins to the Axis in excess of the quarter's allocation. On the Portuguese side there was considerable irritation over the British efforts to tighten up crew control; the matter came to a head when

the British authorities demanded that the master of a certain Portuguese ship should be removed because of his decidedly shady record as a smuggler. The Portuguese authorities were arguing that crew control (except in the case of ships sailing to British and American ports) was illegal and derogatory to their sovereign rights, and there seemed a likelihood that they would force the shipping company to reinstate the master and allow the ship to sail if necessary without a ship navicert. Acquiescence by the Ministry would mean the end of crew control; the interception of the ship would no doubt produce a violent protest. However, this situation was avoided when the Ministry accepted the company's offer to stand surety for the master's good behaviour.

While these problems were unsolved no progress could be made with the wolfram discussions, and there was much speculation in London as to whether Dr. Salazar was following a deliberate policy of bringing to a head all the questions which had not been settled in black-and-white by the supply-purchase and war-trade agreements. The officials of the Ministry, as they looked at these problems from every angle, told themselves that in dealing with Dr. Salazar it was not sufficient to have a sound case. They found it hard to decide how far he was actuated by dislike of the Ministry, how far by considerations of neutrality, and how far by a natural determination to free himself from irksome controls and to strengthen Portugal's economic position. The Allies' wolfram agreement with Portugal expired on 28th February 1943, and it was in an atmosphere clouded by the surcharge and shipping disputes that the British and United States Governments had to consider whether the time had come to demand a substantial reduction in Portuguese exports of wolfram to the enemy. With the prospect of a steady improvement in the war situation, and with the question of an approach to Dr. Salazar for facilities in the Azores under consideration by the Chiefs of Staff, it was finally decided that far-reaching demands in the wolfram field should be deferred. Instead, the Allies should content themselves for the time being with a temporary agreement valid only until 30th June 1943, when the existing supply-purchase agreement came up for renewal. When this suggestion was put to him Dr. Salazar said that he preferred not to discuss wolfram while the surcharge dispute was in progress, and this was one reason for the compromise proposals made by the Ministry on this question in March.

When the surcharges issue was at last out of the way at the end of April the suggestion of an interim prolongation of the wolfram agreement was again put to the Portuguese, whose reply was at first non-committal. But then came a bombshell: a few days later Colonel Fernandes admitted that the Portuguese Government had again signed a new wolfram agreement with the Germans without informing

the Allies, who were thus faced for the second year in succession with a *fait accompli* on this vital question. Moreover, as the German agreement was valid for a year, Dr. Salazar had effectively nullified the Allies' intention to keep their hands free to ask better terms at the end of June. Mr. Eden on 13th May told the Portuguese ambassador that he considered the Portuguese action to be incomprehensible on the part of an ally.

Fernandes after giving the news said that Dr. Salazar was disposed to accept the suggested prolongation of the Allies' wolfram agreement until 30th June, but in a very awkward manner he declined to discuss the terms of the prolongation until the Allies had accepted it in principle. Sir Ronald Campbell's request for an interview with Dr. Salazar remained unanswered for ten days; when it took place at last on 13th May Dr. Salazar's manner was uneasy and he did not seem able to answer the ambassador's complaint that he had again done the one thing that he had been begged not to do. He claimed, however, that the Allied Governments would have no reason for displeasure when they knew the facts. His account of the negotiations was that the Germans had approached him in November 1942; they were not satisfied with his terms and had broken off the negotiations; in mid-February the same thing had happened. But soon afterwards a special delegation came from Berlin and promptly accepted the terms already twice rejected, and then he could not of course withdraw them. When Campbell said that this did not alter the fact that he had again presented the two Governments with a *fait accompli*, Dr. Salazar said that it had been impossible for him to open fresh negotiations until the dispute on price raising had been finally settled. It appeared that the Germans had been limited to a total of 2,100 tons, and that the Allies could expect to receive 50 per cent. of the free wolfram and the production of their own mines subject to no upper limit.

Anyway, this was not the moment for a quarrel; the Azores agreement could not be jeopardized, and the wolfram terms were not disastrous. It appeared that the agreement with the Germans was to last from 1st February 1943 for twelve months; there was to be a fifty-fifty division of 'free' wolfram, and no wolfram mines would be recognized as German beyond those in the earlier agreement. The Allied representatives in Lisbon accordingly signed an agreement on 19th June accepting the extension of the existing agreements as from 1st March up to 30th June 1943, modified as to the 50 per cent. share of the 'free' wolfram; the State Department's reaction was one of 'deep resentment' and a desire to 'hint at possible future reprisals over oil supplies'. But it was forced to recognize the strategical factors involved in taking an over-strong line with the Portuguese. It could safely be assumed that Dr. Salazar was dissatisfied with the

poor performance of the Allies under the supply-purchase agreement, and with the fact that not a single cargo of the phosphates promised him six months earlier had arrived. The greater part of the iron and steel promised by Germany had on the other hand been delivered.

After this there was an uneasy lull in Anglo-Portuguese economic relations during the negotiations which accompanied the Azores agreement—that is, from early July to early October 1943—and it is necessary to recall the goodwill earned by the Portuguese Government in these political discussions if we are to keep the economic-blockade discussions in their true perspective. There was, however, an economic side to the Azores agreement which had an important bearing on the later course of economic-warfare policy, and once again made it difficult to press Dr. Salazar very hard. The political-strategical negotiations, which were difficult enough, ended in the conclusion of the agreement of 17th August 1943; it provided for assistance to the Portuguese Government in the event of a hostile German reaction, and for war material for the Portuguese armed forces. An undertaking was also given by the British Government in general terms to assist in preserving the economic stability of Portugal, and this led to further negotiation which had a direct bearing on the economic-warfare situation. The Portuguese Government sought, understandably, for economic advantages as a *quid pro quo* for its political-strategical concessions. The main Portuguese desiderata were the renewal of the supply-purchase agreement on terms which would give Portugal larger supplies, certain relaxations of the war-trade agreement to provide greater flexibility in the administration of quotas, and finally a considerable measure of shipping assistance in the form of the provision of tonnage on transatlantic routes and of extra coal and other shipments from the United Kingdom. While the British Government was willing to do what it could it was unable to go very far in promising increased supplies (which would come for the most part from the United States), and it hoped, furthermore, that the reorientation of Portuguese policy represented by the grant of facilities in the Azores would be reflected in a new willingness to restrict the export of wolfram and other goods to Germany. During the course of the negotiations in London it seemed for a time that this expectation would be realized, and indeed the main difficulties were rather the inability of the British Government to provide the extra shipping demanded by the Portuguese, and the Portuguese unwillingness to impose cuts in the consumption of imported goods comparable with those in force in Great Britain. As the need for a decision was becoming urgent in view of the imminence of the British entry into the Azores, an agreement in general terms was made on 4th October. It made no reference to Portuguese trade with Germany,

and left the question of supplies from Allied sources to be dealt with in later negotiations, with the understanding, however, that the British Government would do its best to meet the Portuguese demands.

The British forces arrived at their stations in the Azores on 8th October; the German minister in Lisbon was informed immediately before the public announcement of 12th October. There was indignation in Germany and a sharp protest to the Portuguese about the breach of neutrality; after some weeks the fear of German reprisals subsided, but it was assumed on the British side that as a gesture of conciliation Dr. Salazar had promised the Germans that supplies from Portugal, particularly of wolfram, would not be diminished. The Portuguese believed that this action had the British Government's approval. It appears that Mr. Churchill told the Portuguese ambassador at the time that he saw no reason why the Portuguese should not continue to send wolfram to Germany, and indeed increase their exports if such action were necessary to keep the Germans quiet. In his address to the Portuguese National Assembly on 26th November 1943, Dr. Salazar's references to the British Government were friendly and explicit: in particular he admitted that it had abstained from applying for the facilities earlier at a time of urgent need, and that, when it did apply for them, it kept its demands to the minimum necessary for the purpose. But he was unable to sustain the generous note of these references when he spoke of the Ministry of Economic Warfare.

I ought not to disguise from you that the most disagreeable misunderstandings with the British Government and its authorities—the only serious disagreements and discussions which were at times exasperating—have solely originated, during the period of the war, in the economic field. It is certain that this fact is due in part to the impossibility of entirely reconciling the right that we claim as neutrals to trade with other neutrals and with the belligerents, and to look for our supplies wherever we consider it is convenient; the impossibility of conciliating this right on the one hand with the conception and policy of the British blockade on the other; for that blockade is influenced less by principles of law and economy than by the place which is given to the blockade in the British war policy, a preoccupation which entirely dominates those who have to carry it out.

This certainly foreshadowed no stiffening of Portuguese resistance towards Germany on wolfram and other questions, and the United States Government was in no hurry to make available the supplies that the Portuguese were seeking. Thus the British position was awkward. It had promised to make certain commodities available from British sources, the principal being,

From the United Kingdom

coal, coke, and pitch	420,000 metric tons
copper manufactures	400 „
	(plus 300 carry-
	forward from 1942-3)
copper sulphate	12,000 „
caustic soda	4,500 „

From other British sources

wattle extract	840 „
asbestos	1,600 „
codfish	8,700 „
wool	1,500 „
cotton	500 „
coir yarn	1,440 „
jute	5,000 „

A shipping programme had also been promised, together with help in securing cereals. But the United States was the chief supplier, and it had not undertaken any commitments under the agreement. The Portuguese ambassador in London complained (11th January 1944) that the lists which were not ready on 4th October were still not forthcoming; he also asked urgently for wheat, and the Ministry of War Transport agreed to make six ships available for wheat from the Plate. By the beginning of February the Combined Boards had at last given approval to all the items except petroleum products (which were dealt with separately) but then the wolfram question again became urgent and it again became difficult to decide whether it was better tactics to submit a supply programme or to hold it up.

(ii)

The Pre-emption battles

In these rather peculiar circumstances, in which the growing diplomatic strength of the Allied position found little reflexion in economic concessions, the alternative modes of direct struggle between Allied and Axis agents over various commodities continued. Tin, wool, skins, sardines, and above all wolfram were the main items. Of the first four of these we need speak only briefly.

A steady German demand for tin in 1942 had caused some anxiety, and unsuccessful attempts were made to persuade Dr. Salazar to carry out his earlier intention to control its production and export from Portugal. The British and Americans continued to buy small parcels on the free market at the prevailing excessive price. The supplies which they were assigned in the supply-purchase agreement in

November 1942 were less than they had asked for, but the whole position was transformed on 5th January 1943 by a Portuguese decree by which the Government became the sole purchaser of tin at 130 escudos per kilo. It continued to guarantee regular exports to Germany, and tin did not therefore rank very high as an Allied pre-emptive priority. Nor would any additional quantities that might be obtained beyond the supply-purchase figure be really significant from a supply point of view. Accordingly, after the publication of the decree, the pre-emptive buying of tin ceased. By the end of February 1943 it was reported that all the tin due to the Allies under the supply-purchase agreement had been delivered. The Portuguese Government found various other uses for its tin stocks; it used 400 tons to secure the charter of the *Campechano* from Spain for six voyages which would transport 38,000 tons of petroleum products, and another 350 tons were said to have been promised to Germany in consideration for the *Kalmia* being let out of the Baltic.

Nevertheless by the summer of 1943 the stocks (1,200 tons) were becoming a problem. 200 tons were offered to the Allied purchasing corporations in July (at 200 escudos per kilo.) The British pre-emption committee was at first in favour of the purchase, as the enemy's tin position was expected to be definitely tight in the following year; but it finally decided not to buy merely to help the Portuguese Metals Commission out of its financial difficulties. The Metals Commission solved its own problem up to a point by issuing a decree providing that purchases would be temporarily suspended as from 1st January 1944 (stocks being then 2,000 tons). The British-owned mines, Tuella, had already greatly reduced their output; and after this decree the Treasury agreed to compensate the company for its loss of market.

The Portuguese authorities continued to insist that it was 'politically necessary' to let the Axis have 600-700 tons a year. During 1944 various attempts were made by the Portuguese Government to get the Allies to buy its surplus tin: the Allies were still not willing to pay the fancy price asked, and in fact did not really wish to do a deal except in return for a total prohibition of export to the enemy. The Ministry was not willing, in spite of advice from the embassy in Lisbon, to buy unwanted tin (even at reduced rates) after the imposing of the wolfram embargo in June 1944; it preferred to assist Portuguese trade by buying commodities that were of greater use. Some tin continued to go to Germany but the Germans do not seem to have been any more disposed than the Allies to buy large quantities at extravagant prices. Tin did not figure in the 1944 supply-purchase programme.

The 'warm clothing' campaign had been one of the successes of British pre-emptive policy in 1942.¹ The Portuguese authorities had

¹ See p. 321 above.

agreed to hold up exports of hides and skins until the end of 1942, so that it was impossible for Germany to benefit from them during the winter of 1942-3; but the Portuguese then claimed the right to export 150,000 skins to Germany as arrears under the supply-purchase agreement, and the Ministry as we have seen was convinced that this was 50,000 in excess of what the agreement allowed.¹ This was one of the main causes of Anglo-Portuguese tension during the first weeks of 1943. The Portuguese were awkwardly placed in the matter as they had secured a *quid pro quo* from Germany for the skins in the shape of permission to import certain motor-cars from Switzerland. Apart from this there was the problem of accumulating stocks: production had increased to meet anticipated demand and profit. The Portuguese were willing enough to sell to the British, but expected them to buy the bulk of the skins, the poor quality of which made them scarcely worth buying at all. However, purchase seemed advisable, for the Germans would probably have to spend another winter in Russia. The Portuguese Minister of Economy on 15th May 1943 prohibited the export of skins to the Axis up to the end of 1943, although there were in fact substantial exports during June to September. The Pre-emption Committee on 23rd November 1943 decided that skins would still have a pre-emptive value in the following year, for the Ministry could not assume that the European war would end in 1944. Treasury authority was given in December 1943 for the expenditure of approximately £357,000 to purchase 400,000 sheepskins and 800,000 goatskins in return for a complete prohibition of skin exports to the enemy, assuming that the skins were of sufficient quality for the Germans to buy if they had the chance; in other words, that the transaction was of pre-emptive interest and not simply a bribe to the Portuguese. In June 1944 purchases ceased to be pre-emptive and henceforth skins were to be bought only at a price suitable for supply purposes: current stocks alone seemed worth purchasing.

The Allies had succeeded in 1942 in securing the exportable surplus of 'churra' wool in return for a limited quota of imports of high grade South African wool. Trying to arrange a satisfactory balance in price and quantity of churra-blankets and churra as against the South African wool proved a long business. The Portuguese churra and blankets were valued by U.K.C.C. at £112,000, and by the Portuguese at £242,610—the latter figure secured by exorbitant charges for washing, etc., to bring it up to the £240,000-£300,000 estimate for 1,500 tons of Cape wool. There were similar differences between the estimates of the numbers of blankets that could be obtained from 750 tons greasy churra (only about 262.5 tons when

¹ See p. 586 above.

cleaned). The problem of smuggling to the enemy remained aggravated by large stocks. The British Treasury agreed (without enthusiasm) to spend £10,000 on spot purchases in the first quarter of the year 1943. Agreement was reached by June with the Portuguese members of the Mixed Commission: 142,465 blankets, made to Allied specifications, would be provided at 125.40 escudos each, and 750 tons of churra, properly baled for export, against 1,500 tons fine greasy wool from South Africa: all to be delivered within specified periods. As long as the South African supplies continued, there would be no exports of local wool or manufactures to Continental destinations: thus there was in effect an export prohibition from 1st July 1942. The agreement was signed on 3rd August 1943. Neither the U.S.A. nor Britain wanted these blankets for themselves, but at the turn of the year interest in them revived, with the possibility of purchase by the American army for North Africa, and by the War Office for relief purposes in South-East Europe. By arranging for the 750 tons churra to be turned into blankets also, there were made available 142,465 blankets for both parties. It was not necessary after June 1944 to watch the Portuguese wool position so carefully, and subsequent arrangements were a matter of ordinary supply and demand. The Ministry also agreed, in April 1943, to share in the pre-emptive loss on a U.S.C.C. purchase of 24,811 pullovers.

In the case of sardines the immediate interest, at the beginning of 1943, was to secure the quantities agreed upon in the sardine contract of the previous October. To make good the shortfall, the Portuguese Minister of Economy decided to allocate to the Allies the entire winter pack, though at 60s. instead of 40s. the case; and to make up the balance of 123,000 cases due at 30th April from the free stocks. The Portuguese also offered to both sides the accumulated stocks of sardines and other canned fish at a price of 650 escudos per case of sardines (as against the current price of 310 escudos); but this offer was unattractive to the Ministry, both because of the price and because the pre-emptive value was greatly reduced by the offer being made to both sides. The Germans were also not prepared to buy. The pre-emptive case for buying was completely destroyed when on 8th May the Portuguese made an agreement to sell Germany 45 per cent. of the summer pack at 310 escudos. Thus Britain had a supply interest only, and this was met by a contract, signed on 20th July, for 45 per cent. (900,000 cases) of the summer pack at 312.35 escudos.

Means of cutting down the supplies to Germany seemed difficult to devise. Some blockade interest was revived in August 1943 when the heavy cost of olive oil, in which the German sardines had to be packed, looked like stopping the supply to the enemy. In November the German money ran out, but the Banco Espírito Santo came to

the rescue. However, it was reported (15th December) that for the first time, as a result of the July contract, more sardines had been received by Britain than by Germany. The Ministry remained only mildly interested as long as the Portuguese Ministry of Economy was determined, in accord with the 'guiding principle of neutrality' to sell to both sides. Negotiations hung fire for some time in the first months of 1944. Rumours came of another German contract; but Sir Ronald Campbell, when asked by M.E.W. to take up the matter, replied that he was discussing nothing but wolfram at the time and could not mention sardines without creating an anti-climax. The contract was signed with the Germans, on 1st June 1944, for the supply of 900,000 cases packed in olive oil (representing 40 per cent. of the catch). The fact that the German contract might be broken at any moment now by the fortune of war did not seem to worry the Portuguese who felt there would always be a market for their sardines. (Actually, the Germans did not get possession of 150,000 cases due to them.) A contract with Britain was signed in the last week of August; and from that time sardines also ceased to be a matter of economic-warfare interest, and supply for Europe became the leading motive. It was considered of great advantage politically to make a contract in 1945 to prove that it was not the policy of His Majesty's Government only to sell to Portugal and not to buy in return. The Portuguese would be left with 'memories of five happy years during which they were able to play us and the Germans off against each other in matters of price¹ and allocation'.

But wolfram was the great battleground. In the winter of 1942-3 the British authorities had been in two minds about the expediency of 'special operations' in the wolfram field, although theoretically they had considered themselves free, in view of the discrimination of the Portuguese Metals Commission in favour of Germany, to do what they liked. But for a time they had held back from any form of illicit action.² Various clandestine methods examined in 1942 had included smuggling in various directions; mixing, blending, and exporting in the normal way under the name of some other mineral; concealment and accumulation of supplies of the mineral; the use of *guias* of British concessions to cover 'free' wolfram. But the Ministry early in 1943 was still averse to clandestine action till the new agreement should be signed. The Pre-emption Committee's cautious policy lagged behind that of the Americans, who were prepared to go ahead with disguised exports. A small joint committee of the corporations was formed to study the various methods suggested, and to limit the knowledge to as few persons as possible.

¹ Pre-war, c. 100 escudos per case; 180 in 1940; 300-400 in 1941-3; 280 in 1944.

² See above, p. 335.

German activities were very pronounced, especially in the acquiring of 'outside' wolfram; for example, one German agent¹ had properties, the actual production from which in July was about 4 tons while fossicking brought in 20 tons, and absorption from surrounding areas 60 or 70 tons, of mineral that should have been neutral; moreover, he paid less than the corporations did. There were many collaborators on the frontiers. The Portuguese made efforts to check all this but without much success. The Spanish-Portuguese frontier smuggling was most baffling: the Germans bought concessions on either side of the frontier and it was calculated that between January and August 1943 they had smuggled 350 tons into Spain and the independents 468, and of this 818 tons the Germans had acquired 550 tons and U.K.C.C. 268.

Action began, however, to be taken by the Allies and with increasing enthusiasm. Small undertakings were bought, as giving opportunities of absorption of 'free' wolfram; the purchase of 'residues' (i.e. mineral having a tungsten content of not more than 25 per cent.) on equal terms with the Germans was decided upon in July, viz. 600 tons during the time of the wolfram agreement. At the first inter-capital meeting on the coordination of wolfram policy (9th-10th July), when the whole field of wolfram activities was reviewed, it was decided to treat the Peninsula as a single unit for wolfram. It was planned to carry out absorption, selective smuggling (by sea to Gibraltar), and immobilization of unsmelted ore; for this a total expenditure of 40-50 million escudos per month for three months was envisaged. Lisbon reported enthusiastically at the end of its first month's efforts: the Portuguese authorities knew of these operations and hoped they would stop, but needed wheat and shipping assistance too badly to take the Allies to task. But, to make things as little difficult as possible for the Portuguese, the committee decided to concentrate chiefly on immobilization, which was thought unobjectionable as far as Portuguese law was concerned. The Ministry's attitude amounted to a cautious approval of absorption, but with a ban on smuggling by sea, as the risk of detection might have repercussions disastrous to general British relations with Portugal. If the Americans wished to organize it, the British would share the loss but not the responsibility.

Land smuggling was a more involved problem. The second inter-capital meeting (at Madrid), on 25th August 1943, discussed this one matter. It was estimated that of the total deliveries in Spain in July, viz. *c.* 490 tons, at least 100, and possibly 150, were smuggled from Portugal. The Portuguese were attracted by the higher prices

¹ This 'amiable and attractive rogue' . . . 'never tires of observing that we could have had his services, instead of the Germans, if . . . the U.K.C.C. had not been so shortsighted in the early days'.

in Spain. The price reductions in Spain in early August led to a temporary reduction in smuggling, but this in its turn made more wolfram available to the Germans in Portugal.¹ The meeting resolved to concentrate for the time on immobilization (reckoned as 70 tons per month) and the keeping down of prices. Another method, known as 'channelling', was used to canalize the flow of smuggled wolfram into Allied hands in Spain. In effect, however, the reduction of prices in Spain faster than in Portugal led to the flow of Spanish mineral into Portugal. The ambassador, telegraphing on 12th October, said that the 'state of nerves' in which the Portuguese then were (owing to the signing of the Azores agreement) made it impossible to secure the reduction of the official price of 'free' wolfram from 120 to 80 escudos per kilogramme.

A representative of the U.K.C.C. gave the opinion early in November that absorption into British mines had 'reached the maximum compatible with maintaining official complacency', though immobilization might continue. The fourth inter-capital meeting (8th November) was convened to discuss a police warning about illegal activities; the police were anxious to avoid a scandal, apparently, but were not prepared to do anything drastic. At this meeting the device known as 'demurrage' was put forward as an additional means of securing wolfram; by it operators might buy mineral at 150 escudos, and hold it for a monthly fee before delivery to the Metals Commission. This was really a variant of immobilization. In December 502 tons were immobilized, and three demurrage contracts made.

By February 1944 there was evidence that another price-war was beginning (prices reaching 250 escudos in March), and the Germans were on the track of their 50 per cent. of the 'immobilized' wolfram (626 tons by the end of February: 85.22 had been delivered to the Metals Commission). During the spring the tussle continued. During April and May Germany was trying to prevent the Portuguese from chartering some Swedish ships in the Baltic; when the Allies discovered that this pressure was being put on the Metals Commission as a means of getting hold of 'immobilized' stocks, they decided to cease 'immobilization' and switch over to absorption, especially as several 'demurrage' people had also had their mineral seized. The main wolfram battle was fought in the diplomatic field, as we shall see in the next section. When the wolfram embargo was imposed by the

¹ Considerable mystery surrounded the block trains travelling from Portugal via Spain: and British efforts to prove that they carried wolfram were not generally successful. It was more than probable that some customs officers were hand-in-glove with the Germans. It was thought that the manganese trains carried wolfram, but the British had not succeeded by September 1943 in getting any of them opened up. When, by the end of December, smuggling into Spain virtually ceased, there was expected to be a revival of the despatch of wolfram by block train, though not substituted for manganese, owing to British representations to the Spanish authorities: it might be some other mineral, pyrites, perhaps, or lead.

Portuguese Government in June, the date fixed by the Metals Commission for the handing over of all metal mined up to the time of the decree was 25th June. For the British the question was whether to deliver to the Commission all the metal that could be prepared by that date, at the price of £700,000 to £750,000—which would create a serious financial problem for the Portuguese—or whether it would be more advantageous, in considering the compensation which would have to be made for the loss of the wolfram market, to offer to hold the mineral without asking for payment. The Germans would probably hold most of their mineral with a view to smuggling. This was the immediate problem. The Portuguese Government was prepared to take steps, e.g., dismantling wolfram machinery and cancelling *guias*. (Special arrangements were made to cease production on the Beralt properties, where production had been scaled down to 160 tons per month since the previous November.) There were many ways of smuggling used by the Germans—by sea to Spain (the first time that anyone had been caught in *flagrante delicto*), by railway, by parcel post; and it was not till August that supplies to Germany ceased. The end of the war led to the problem of the disposal of the stocks of wolfram: this caused a delay in the signing of the supply-purchase agreement till January 1945. It was accepted that Dr. Salazar had in good faith thought that Britain would buy all the stocks left in the hands of the Metals Commission; payment of £530,000 was made (for the British wolfram, not for the total stocks which were valued at over one million pounds) and the wolfram decrees were at last cancelled in December 1945.

This story might close with a reference to the men in the field: one of them was described by the head of U.K.C.C. in Portugal as ‘the smartest and best informed operator in the country . . . our Napoleon’; and another official paid this tribute to them:

Some of these men risked their liberty and even their lives in the attempt to curtail vital supplies to the enemy and, while the ultimate victory lay in the diplomatic field, much of the credit for the success of the campaigns must be given to the men of the front line.

(iii)

1944: the wolfram embargo

But clearly the most effective way to deal with the wolfram situation would be to secure by diplomatic pressure a Portuguese embargo on all wolfram exports to Germany, and action to this end became imperative as soon as the Anglo-American campaign to secure a similar embargo in Spain was launched at the beginning of

1944.¹ Some readjustment of British policy was necessary before British and United States plans could be brought into line.² Talks in Washington in November and December 1943 showed that the Americans did not believe that Great Britain had made full use of her bargaining weapons in the Azores negotiations, a view privately shared by many members of M.E.W. However, Lord Halifax had to say that the British Government would not be prepared to engage in any joint action involving economic sanctions against Portugal, although Mr. Eden was willing for efforts to restrict Portuguese aid to the Axis to be made on the political plane. The Americans continued to believe that the British were 'as always too lenient with the Portuguese for sentimental reasons'. It may well be that the Portuguese had similar ideas. The Ministry found in November that the Portuguese ambassador in London believed that Great Britain did not at all object to Portugal's supplying Germany with wolfram on the existing scale—and even on an increased scale—and that the Ministry of Economic Warfare was conducting an 'independent and much more truculent' policy than the British Government as a whole. There was an echo of this in Dr. Salazar's speech on 26th November. Mr. Churchill's apparent condoning of the wolfram exports perhaps created some genuine misunderstanding, which Lord Selborne sought to remove at his first meeting with the new Portuguese ambassador, the Duke of Palmella, on 16th November, by having a lump of wolfram on the table and giving it priority in the conversation. At any rate, the Foreign Office and War Cabinet accepted the Ministry's proposals in December for the intensified ferro-alloys campaign, together with Lord Selborne's view that the only hope of effecting a substantial reduction in Portuguese wolfram exports to the enemy was to put the case to Dr. Salazar at the highest level 'stressing particularly our alliance and the military importance of wolfram under war conditions'.

The first British move was on these lines, and was ineffectual. The British ambassador told Dr. Salazar on 22nd January 1944 of the recent examination of the ferro-alloy situation by Anglo-American experts, and said that the two Governments had reached the definite conclusion that wolfram had become a matter of first strategic importance. Some of the ferro-alloys were interchangeable but tungsten was essential to the production of high speed steel for machine tools. While the Allied position was constantly improving as regards other alloys it was quite the contrary as regards wolfram. Germany still obtained 90 per cent. in her basic minimum requirements from the Peninsula—mainly from Portugal. Every ton that continued to

¹ It was also necessitated more generally by the Ministry's plans for a concerted attack on the German ferro-alloys position: see p. 411 above.

² *The Memoirs of Cordell Hull*, ii, 1339.

go to Germany helped her to prolong the war at the cost of hundreds of thousands of lives. Accordingly the only solution completely satisfactory to the British Government would be a total embargo, not as a commercial matter but as a strategical issue of first-class importance. Dr. Salazar's reply was on 'friendly but plaintive' lines. He was not convinced: he had heard much the same on previous occasions: more than two years ago he had been told that the German war industry needed 5,000 tons a year, but although it had obtained only a fraction of that amount from Portugal it 'had gone on merrily all the same'. Portuguese spokesmen continued on these lines during February. At the end of the month Dr. Salazar made it clear to the American minister, Mr. Norweb, that he was waiting on events in Spain; he was using his good offices in support of the British and American demands, but thought that a *total* wolfram embargo there was out of the question. It would be equally out of the question for Portugal. The next move was the calling of Sir Ronald Campbell to London for discussions. He and the United States representative asked for a temporary embargo pending his return. (It will be remembered that the existing wolfram agreement with Germany ended on 29th February 1944.) The request was not acceded to, and another 100 tons of wolfram had gone to Germany by the middle of March.

The Foreign Office had been inclined to doubt the need for a total embargo in view of the imminence of an Allied invasion of France which would in any case cut off Germany from Spanish and Portuguese supplies; but it was now satisfied that Portugal should at least be asked to set an example to Spain. Sir Ronald returned to Lisbon with a letter dated 15th March from the Prime Minister to Dr. Salazar which was, however, like the ambassador's representations in January, without any apparent effect. Mr. Churchill spoke of the relatively greater importance of wolfram since the beginning of 1942 and of the favourable turn of the war which removed any possibility of a German attack on Spain or Portugal. The Azores agreement had caused widespread satisfaction. He would, however, he said, be wanting in the frankness proper between friends and allies if he concealed from Dr. Salazar that the continuance of wolfram exports to Germany at this stage of the war was causing increasing bewilderment and concern in England. He then spoke of Spain's obvious retort that Great Britain should surely first look to her Portuguese ally to give the lead in cutting off all further exports of wolfram to her enemies. The Prime Minister had thus spoken in the name of the alliance, without formally invoking it. The ambassador's interview with Dr. Salazar to present the letter was, however, once again without effect; throughout a lengthy conversation Dr. Salazar remained 'calmly but completely adamant'. He replied to the Prime

Minister on 28th March in a letter which explained that he could not go so far as an embargo, although he could promise a reduction of the German quota.

With the apparent failure of the political approach there were some signs that the Americans would revert to the policy of economic pressure, and at the end of March they were examining the extent to which the policy of generous economic treatment for Portugal could be put into reverse without prejudicing the Azores agreement. After Dr. Salazar's reply the United States legation in Lisbon, with the approval of the State Department, refrained from any further moves in the supply-purchase negotiations. In the end, however, the State Department decided to be satisfied with a waiting policy, again leaving the initiative to the British Government; it continued to advocate a total embargo. Matters continued on these lines throughout April. The Foreign Office had now, willy nilly, to take the view that it was best to wait until the completion of the Spanish wolfram agreement, which would be bound to have a powerful influence on Dr. Salazar. Lord Selborne on 28th March wrote to Mr. Eden to impress on him and the Cabinet the vital importance of wolfram to German's war economy; wolfram was so important that Dr. Salazar's refusal should not be taken lying down. He believed also that the Portuguese attitude would have a very adverse effect on Spain and Turkey (over chrome). 'These neutrals look at each other.' He thought that the circumstances justified the playing of Britain's reserve card, and that Dr. Salazar should be called on to implement the Anglo-Portuguese alliance and to become one of the United Nations. Then (a) a Portuguese contingent could take part in the Allied landing on Timor; (b) he would be assured of his supplies under lease-lend; (c) he would materially strengthen the foundations of the Portuguese Empire for a generation. Against this he had only to fear the risk of his ships being torpedoed or bombed (which the Admiralty rated at less than half of one per cent.), and a land invasion, which could surely now be regarded as an impossibility. The Foreign Office was not greatly impressed by this plan¹ but could only suggest to Mr. Churchill, who was temporarily in charge of the Foreign Office during Mr. Eden's absence, that the British Government should mark its displeasure by refraining from special efforts at this stage of the war to assist Portuguese economy. Mr. Churchill, who in a minute of 9th April had only been prepared to say that 'the pressure should be kept up, but in a tone more in sorrow than in anger', agreed after Mr. Hull's speech of 9th April that there

¹ Portugal had already received all the military supplies promised in the Azores agreement under lease-lend terms. If Dr. Salazar wanted more he had ample sterling balances and could pay for anything that the British were prepared to supply. He had already received complete guarantees of the Portuguese Empire at the time of the Azores agreement from the United Kingdom, the Dominions, and the United States.

should be a progressively sharper tone and cooler attitude. But all this was rather defeatist; it seemed that Dr. Salazar was determined not to give way, and that the British Government had no practicable means of forcing him to do so.

The Spanish wolfram agreement of 2nd May did, however, give an impetus to the negotiations, if only by raising hopes that Dr. Salazar would at least reduce wolfram exports in conformity with the Spanish figure. The State Department found itself under increased pressure to do something about Portuguese wolfram, and although still agreeing that the more active rôle must 'for the moment at any rate' be left to the British Government, began at once to ask what the latter proposed to do.¹ One move which seems to have been inspired by the State Department was an approach to Dr. Salazar by Senhor Neves, the Brazilian ambassador at Lisbon; the interview, as reported by Sir Ronald Campbell, appears to have been stormy. The ambassador referred to Brazilians being killed with weapons containing Portuguese wolfram and appealed to Salazar to discontinue supplies with the words, 'Brazil expects this of you'. After listening in grim silence Salazar complained bitterly of Great Britain, making the remarkable statement that 'he had always exported wolfram to Germany with our consent and that we had then suddenly turned on him and asked him to cut it off at one stroke'. On 6th May General Smuts telegraphed an appeal to Dr. Salazar 'to meet the British request before irreparable mischief ensues', and was promised in reply that the export of wolfram would soon be 'severely restricted'. But it was not a very attractive offer that Sir Ronald Campbell had to report (on 9th May) as the result of his request for details of the reduction in the German quota that Dr. Salazar had promised Mr. Churchill on 28th March. After telling the ambassador that a complete embargo was impossible, Dr. Salazar said that in an attempt to go as far as possible to meet the British Government he wished to make the three following alternative suggestions:

1. The free mines to be closed down, each side (Anglo-American and German) retaining the production of its own mines;
2. the free mines to be kept going with their whole output allocated to Great Britain and the United States;
3. the free mines to be kept going, their output being stored in Portugal and sold to Great Britain and the United States after the war.

Sir Ronald said at once that Mr. Eden had been confidently hoping for an embargo, and that none of these solutions would be satisfactory. The objections to the proposals were indeed extensive. Dr. Salazar put the annual output of the German-owned mines at 900

¹ Cf. *The Memoirs of Cordell Hull*, ii, 1339-40.

tons, and he considered that the German Government was entitled to a further 150 under the expired agreement. This would be a considerable export in itself, and there was the further consideration that without a radical change of attitude on the part of the Portuguese authorities there was no guarantee that the Germans would not get a great deal more by illicit means—perhaps as much as the 600 tons which they were estimated to have obtained in 1943 in excess of their officially-recorded exports.

The next step was therefore to reject this offer, and demand more: but how much more? There was pessimism in the Foreign Office as to the possibility of securing even a settlement analogous to that obtained in Spain, for the embassy in Lisbon was convinced that Dr. Salazar would yield only under a threat of really serious proportions, and the certainty that it would be carried out. On 14th May the Foreign Office sounded Lisbon and Washington on a new plan of campaign. Drastic means of pressure, political or economic, to compel Portugal to accept a complete embargo were rejected because it would take several months to bring Dr. Salazar to terms by these means, and the British Government was interested only in quick results; instead, he was to be asked to reduce exports to Germany to 20 tons a month from May to August, and 60 tons a month thereafter until February 1945, to cancel the export of the 150 tons under the old agreement, and to permit British cooperation with the Portuguese Government in preventing smuggling. This proposal was to be driven home by means of a further letter from Mr. Churchill which would speak of the grave threat to the alliance involved in continued opposition to the British Government's wishes. The State Department flatly opposed this plan; it was confident that the stronger line of approach which the British Government had previously been following (and which it fully approved) would be sufficient to secure a complete embargo, and it urged the British to go for this goal. It was in essentials the Spanish issue over again. As it turned out the State Department was right; but it had been wrong for many months in its belief that Franco could be forced to give a complete embargo, and it had clearly no plan to meet the situation which would follow a Portuguese refusal. Once again the British found themselves stressing the practical advantages of a quick settlement which would virtually deny Germany any wolfram during the next few vital months; Salazar, unlike Franco, had not imposed a temporary suspension of exports¹ so that if a deadlock followed, every day would be to the Allies' disadvantage. Moreover, they doubted whether Dr. Salazar would readily be alarmed by a threat of reprisals. In this connexion the United States Government's own actions were

¹ The Germans had, however, been officially limited to the output of their own mines since February.

decidedly puzzling, for it had recently made several conciliatory gestures to the Portuguese Government. The two countries had just exchanged ambassadors (the Foreign Office had had no foreknowledge of this move); the United States Chiefs of Staff had chosen just this moment to recommend staff conversations at Lisbon about the Far East; the United States members of the Combined Planning Staff had decided, against British advice, that arrangements should at once be made for the supply of aviation petrol for the Portuguese Air Force; and the new United States ambassador¹ was said on good authority to have assured Dr. Salazar that in no case would sanctions be taken against him.

But while Lord Halifax thought that United States policy on this particular issue was 'entirely unconstructive' he was equally convinced that the Americans were not hanging back, or leaving the British Government to bear the odium of a Portuguese refusal. Indeed, the State Department had officially expressed surprise that there should be any doubt as to its willingness to support the British Government strongly and openly in threatening and imposing economic sanctions. Lord Halifax very much favoured a 'compromise' procedure which Campbell suggested on the 19th: this involved a final demand for an embargo, supported by the strongest pressure that could be brought to bear without prejudicing an immediate reversion to a compromise should that prove necessary. After he had sent this recommendation to London Lord Halifax received an *aide-mémoire* from the State Department suggesting a somewhat elaborate procedure of approach to Dr. Salazar: this involved an invitation from the Combined Chiefs of Staff to Portugal to become an active ally in the war, with an immediate temporary embargo by the Portuguese Government to be maintained at least while discussions about its entry into the war were in progress.

However, Sir Ronald Campbell had in the meantime 'penetrated the outer defences' at Lisbon; in conversations with the Duke of Palmella and M. Sampayo on the 21st and 22nd he said that Dr. Salazar's proposals of 9th May were totally unacceptable, and that he was expecting to be instructed to appeal either for a total embargo or at the most for token exports to Germany. What perhaps decided the issue was his warning that if wolfram continued to flow to Germany Mr. Churchill would not be able to continue his support of the policy of maintaining the alliance (that is, against Parliamentary and other criticism). These statements evidently made a strong impression, for M. Sampayo told the ambassador at noon on the 22nd that Dr. Salazar had not intended his proposals to be final and was still open to a further appeal. On the strength of this report the Foreign Office, which had not at all liked the American proposal, told

¹ Mr. R. Henry Norweb: cf. *The Memoirs of Cordell Hull*, ii, 1337.

Campbell to follow up his latest move and to endeavour to secure a complete embargo in an immediate interview with Dr. Salazar. The interview, when it took place on the 24th, was long and difficult; the ambassador reiterated all the familiar arguments in 'something like an impassioned appeal', and Dr. Salazar cross-examined him in a most 'searching manner' as to the meaning and implications of the British demand. He was not prepared to make a decision without consulting the Council of Ministers and the President of the Republic, but at last on 1st June, after a tense week in which everyone concerned seems to have behaved with exemplary patience, he announced to the British ambassador a total prohibition, on conditions, of wolfram exports through the method of closing down all mines.

But even this was not the end of the wolfram story. There was no doubt that the decision had been a hard one, that the urgency of the British demand for a total embargo had come as a complete and exceedingly disagreeable surprise, and that Dr. Salazar perhaps disliked most of all the thought that his people would know that he had been successfully challenged. His adherence to the alliance, and his conviction that in the post-war world it would form the surest foundation (against even American influences) for his country's independence, made acquiescence inevitable in view of the near certainty of final German defeat; the Germans moreover had aroused his annoyance by an injudicious interference on 26th May with the Portuguese steamship, the *Serpa Pinto*, on a west-bound voyage.¹ All this pointed to acquiescence in the British demands, but with some show of bargaining; and the conditions attached to the promise of a total prohibition were in fact rather extensive. They were that Great Britain should honour its outstanding commitments under the commercial agreement attached to the Azores agreement; that the supply-purchase agreement should be concluded; that extra merchant tonnage should be made available, for without this any supply programme agreed on would be partially illusory; that these agreements should be concluded before any measures closing down the mines; that before the introduction of such measures Germany should be allowed to receive the 98 tons of wolfram due to her under the expired agreement; that the time and form of publicity should be agreed. When these terms were explained to Sir Ronald Campbell he at once replied 'politely but firmly' that this proposal would be a great disappointment to Mr. Eden. He had based his appeal on the alliance in the hope that it would facilitate a 'prompt, spontaneous, and generous response'; the conditions hedging the Portuguese

¹ A U-boat held up the ship four days' out of Lisbon (about 1,100 miles east of Philadelphia) and forced all passengers and crew to abandon ship; in the process two persons were drowned. Subsequently they were allowed to re-embark with the exception of two American passengers who were taken off in the submarine. The ship was then apparently forced to proceed in radio silence until it reached United States territorial waters.

reply deprived it of any of these qualities. Dr. Salazar was so indignant that for a time he could hardly speak: when he calmed down he said that he simply could not understand. He was responding to the appeal in the most generous and self-sacrificing way. Was his side never to be considered? No progress was made in the tense and prolonged conversation that followed.

There were two points at issue. Apart from the question of the 98 tons Dr. Salazar's conditions were regarded as unreasonable only because they were put forward as conditions: there was no doubt about the Allied obligation to complete the supply-purchase agreement, and the Portuguese authorities had already been told that the Allies were prepared in principle to cushion the shock to Portuguese economy resulting from a wolfram embargo and to consider sympathetically the replacement of essential imports that had previously come from Germany. The United States ambassador had already told Dr. Salazar that there should be no insuperable difficulty in finding extra shipping. However, most of the supplies would have to come from the United States, and it was partly because of American dissatisfaction with Portuguese policy (mainly over wolfram) that the supply-purchase negotiations had been held up. In addition, the supply situation was becoming in some ways more difficult for the neutrals: with the approaching liberation of European countries demands upon the strictly limited and diminishing world supply of goods would increase. Whatever the British goodwill, an immediate, unqualified acceptance of these Portuguese conditions was impracticable. On 4th June Dr. Salazar agreed to be content with some general guarantee of the British Government's intention to negotiate the outstanding economic agreements forthwith.

But the problem of the 98 tons remained. Was it worth further argument? On 5th June indeed the Foreign Office telegraphed to Washington recommending agreement to Dr. Salazar's demand on this point: the complete cessation of all exports of wolfram other than this amount seemed a satisfactory enough settlement. This message was due to Campbell's insistence that Dr. Salazar would not give way: he maintained that the obligation was one of honour. It could be argued that the Portuguese wolfram settlement would be less satisfactory than the Spanish settlement, and very much less satisfactory than the Turkish settlement over chrome. On the other hand Germany would have received about 1,000 tons under Salazar's proposal of 9th May. The embassy in Lisbon pegged away with another argument: the Germans must already have received more than the 98 tons which Dr. Salazar claimed to be outstanding under the earlier agreement. Portuguese figures for German exports of wolfram since 1st March were not available, but as Dr. Salazar had himself given the annual figure to which the Germans were entitled

as 900 tons a year it followed that, on a monthly basis, they should only have exported 225 tons; whereas the embassy's information was that they had exported 449 tons, of which all but some 40 tons was absolutely confirmed. In other words, they had exported 224 tons, or at least 184 tons, more than they were entitled to, and had more than liquidated the outstanding 98 tons.

However the essential point was to find an argument that the Portuguese could accept with a good grace. On 5th June Dr. Sampayo proposed that total prohibition should enter into force on 8th June, the 98 tons to take its chance of getting away by then. This looked like a way of stopping the export of the 98 tons without admitting it, but the embassy's experts believed that there was enough separated wolfram in the warehouses of the Metals Commission for the whole quantity to be delivered immediately. The embassy had also just received secret information that 89 tons had crossed the frontier for Germany within the last few days. Late on the evening of the same day Dr. Salazar told the ambassador that the Germans had received amounts greater than his original estimate of the capacity of their mines and he therefore agreed to abandon his insistence on the export of the 98 tons. On 7th June Mr. Eden was accordingly able to announce that the Portuguese Government had acceded to the British request for a total prohibition of wolfram exports, and to welcome warmly this further proof of Anglo-Portuguese friendship and of the fidelity of Portugal to the ancient alliance. The announcement was overshadowed by the news of the Allied landings in France, but Mr. Eden said that the Portuguese decision had been taken on the 5th, that is, before the invasion. The State Department's announcement gave no credit to Sir Ronald Campbell for his success in finally bringing Dr. Salazar to agreement.¹

(iv)

After the embargo

The British and United States ambassadors both thought that it had been harder for Dr. Salazar to make the wolfram agreement than the Azores agreement. The juridical basis of Portuguese neutrality and sovereignty, which he was studious in preserving by documentary symbols and a careful avoidance of official approbation of the successes of the belligerents, was preserved throughout

¹ Against the Foreign Office's wishes the news was published in the States before Mr. Eden's statement to the House. The first draft of the State Department's announcement read, 'The United States Government has conducted the negotiations which have led . . .' This version was amended, apparently by Mr. Stettinius, to read: 'The United States Government had been active in the negotiations which led up to this satisfactory conclusion, in close consultation with the British and Brazilian Governments.'

the later phases of the war; after the spring of 1943, when the war news was increasingly of Allied victories, any signs of jubilation in the Portuguese press were systematically curbed. The terms of the Anglo-Portuguese alliance were not considered to be incompatible with this neutrality; and he was reluctant to concede that economic issues such as the wolfram embargo fell within either the letter or spirit of treaties. During his long arguments with the British ambassador about the wolfram embargo he repeatedly asked whether the British Government was formally invoking the alliance or merely appealing to its spirit. In these circumstances his desire to maintain with both sides a sufficient and indeed a prosperous level of wartime trade was as much an assertion of the rights and dignity of a neutral as a matter of expedient profiteering; and when he made concessions it seemed only right that the Allies should pay for them. The last phase of the war from the economic-warfare angle was therefore one of rather prolonged bargaining about Portugal's compensation for her concessions. For the wolfram embargo, with the closing of the Franco-Spanish frontier, was undoubtedly a sad day for Portuguese economy; as a British commentator later remarked, 'gone were the days when the belligerents scrambled for fish-oil at over 30 escudos per kilo, and when anything up to 50 escudos per kilo was being paid by the Germans for cocoa smuggled to the French frontier'. The British and United States Governments were willing enough that Portugal should have a square deal and plans for completing the supply-purchase programme were at once laid. But some of the Portuguese demands—particularly those for extra shipping—could not be easily met, and the supply-purchase negotiations were in some measure linked with those concerning Portugal's participation in operations in the Pacific relating to the reoccupation of Timor.

The effective agreements were not concluded until the beginning of 1945. Anglo-American proposals for the current supply-purchase programme were presented to Colonel Fernandes on 1st July 1944, and the A and B lists were discussed on 11th and 14th July; the Americans (probably in view of the Timor negotiations) seemed very willing to make concessions in the form of additional supplies, and agreed among other things to the extension of the programme, on Dr. Salazar's request, to 30th June 1945, instead of to the end of 1944, as originally suggested. The British Government agreed to this in August. The Combined Boards in Washington accepted the proposals on 14th September, with some minor reservations, although they were unable to assume responsibility for deliveries up to the Portuguese demands for oil and coal. The Portuguese made some further demands, particularly for increased wheat imports, but after renewed bargaining Colonel Fernandes accepted a figure of 110,000 tons of wheat for the six months ending 31st December 1944. It would,

indeed, have been easy to conclude the agreement in September, but signature was held up for another four months by Dr. Salazar's insistence on prior satisfaction over two matters which arose from the discussions on the wolfram embargo. He claimed that the British Government had promised to provide additional shipping to carry all the supplies that Portugal was to receive under the supply-purchase agreement, and had also promised to buy all wolfram stocks in the hands of the Metals Commission. However, in January 1945 he changed his mind, and although neither of these questions had been settled allowed Colonel Fernandes to sign the supply-purchase agreement on 26th January.

On the shipping question indeed the Portuguese Government's case was not strong. It had started by demanding that 410,000 tons of shipping should be made available; the British could only offer 50,000 tons for the period up to the end of June 1945. The difference was, however, more apparent than real. The Portuguese figure included the shipping necessary to carry 180,000 tons of United States coal in excess of that provided for in the supply-purchase programme, and it ignored the fact that 150,000 tons of neutral shipping were likely to be made available to charter. Indeed, the British Government considered its offer to be a generous one, and quite sufficient to enable the Portuguese to cope with their full import programme.

It was less sure of its position on wolfram, although unwilling at first to pay Dr. Salazar's price. It was doubtful whether he could show that the British Government had promised in as many words to purchase all wolfram stocks. At one point, however, in a conversation with the Portuguese ambassador on 13th March 1944, Mr. Eden and the Chancellor of the Exchequer had offered to purchase the whole of Portugal's wolfram production until the end of the war, and on 28th May Campbell had been authorized to promise help in lessening any shock to Portuguese economy arising from a wolfram embargo. The decision of the Portuguese Government to close down all the wolfram mines and, in order to prevent smuggling, to buy up all the existing stocks of mined wolfram in Portugal suited the British far better than the plan suggested on 13th March. It involved, however, heavy losses to Portuguese economy, and a loss of some £2,000,000 to the Portuguese Exchequer, together with the dislocation of the country's economy caused by throwing some 90,000 to 100,000 persons into unemployment. This wolfram issue was linked both with the supply-purchase negotiations and with negotiations for a new payments agreement, although it had no real connexion with either. A British Treasury and Bank of England delegation had recently concluded a satisfactory draft payments agreement in Lisbon, but Dr. Salazar withheld his approval even after his agreement to the signature of the supply-purchase agreement, and there seemed

no doubt that this was an expression of his annoyance at the hold-up of the wolfram purchases. In March 1945 accordingly it was decided to purchase the wolfram stocks at the price paid for them by the Metals Commission, but without the export tax. This was not put forward as a bargain, and no formal conditions were attached. Dr. Salazar estimated the total cost of the wolfram purchases from British, German, and other sources at £1,100,000; of this amount British wolfram was valued at £530,000, and he said he would ask only for this smaller sum. The Treasury arranged for payment of this. The wolfram decrees were finally cancelled in December 1945. By the autumn of 1944 the British debt to Portugal stood at £76,000,000, and, as one specialist has remarked, Anglo-Portuguese finances were beginning to assume their post-war look.¹

When Hitler's death was announced on 3rd May 1945 the Portuguese Government ordered the flags on official buildings to be flown at half mast; but popular feeling spurned this final example of 'juridical neutrality' and the authorities wisely decided to let the people have their heads for the best part of two days. Every tavern had its special barrel long since reserved for the great occasion. The Government so far followed the people as to seek an invitation to the thanksgiving service in St. George's Church, and inspired press articles underlined Portugal's fidelity to the British alliance throughout the war.

¹ R. S. Sayers, *Financial Policy, 1939-1945* (H.M.S.O., 1956), pp. 453-4.

CHAPTER XXI

THE LAST PHASE

As soon as the ultimate success of the Allied invasion of France was assured—and by the end of June 1944 the fighting before Caen had already brought the final note of slightly insane desperation into Hitler's improvisations¹—the conduct of the blockade began to be shaped with an eye to the early end of hostilities. This meant on the one hand that the Allies could now rapidly complete the final cutting off of neutral supplies to Germany; on the other, that the blockade authorities were increasingly preoccupied with neutral demands for the easing of the blockade, with adjustments to help the liberated areas, and with plans to prevent the escape of the enemy with his loot.

We have already examined the first of these two processes in detail in previous chapters. We have seen that the Turkish suspension of chrome deliveries to Germany on 20th April 1944 was followed on 16th June by the reduction of her total exports to Germany to at least half of the 1943 level, and by the complete breaking off of relations, diplomatic and economic, with the Axis on 1st August. Sweden, the first of the European neutrals to make, in 1943, substantial adjustments in her wartime trade with Germany, had been nettled by the further Allied pressure, this time over ball-bearings, in 1944, but the agreement of 8th June on this head was followed by the progressive reduction of other exports during the latter half of the year, and by the beginning of 1945 all Swedish-German trade had ceased. Switzerland made her first substantial concessions in the agreement of 19th December 1943, and was pressed to make more stringent reductions in her trade with Germany in May 1944; after some further, but limited, concessions on 14th August, the Allies secured on 1st October the prohibition of all export of arms, ammunition, bearings, fuses, and other military supplies, although not the complete closing of all the Alpine passes to German transit traffic. But by this point Allied troops had reached the Swiss border, and after the visit of Mr. Foot and Mr. Currie in January 1945, all Allied blockade interests were satisfied in the agreement concluded in the following March (see p. 621). Spain and Portugal surrendered to the Allies on the wolfram issue on 1st May and 5th June 1944

¹ John Ehrman, *Grand Strategy*, VI, 1-3; Chester Wilmot, *The Struggle for Europe* (London, 1952), pp. 346-7, etc.

respectively, and the closing of the Franco-Spanish frontier by Allied troops on 21st August ended willy-nilly their opportunity for further trade with the enemy. Thus the blockade ring was completely closed some time—but not a long time—before the war in Europe ended at midnight on 8th–9th May 1945.

The extent to which the progressive cutting off of all foreign supplies contributed to Germany's final collapse we shall discuss in the next chapter. Whatever its effectiveness, the blockade was virtually complete by the beginning of June 1944, and the Ministry from this point was increasingly concerned with the problem of attenuating its severity wherever an enemy interest was not being served.¹

Demands with this end in view were only to be expected from the advocates of food relief for the occupied territories; as the prospects of Allied victory became ever brighter it was increasingly easy to believe that a few shiploads of this or that would have no bearing on the final result of the war. The practical difficulty of making arrangements with the German authorities, the conviction that the existence of genuine distress had in no wise been proved, and the impossibility in any case of moving shiploads of food into western European waters on the eve of the invasion, convinced the Ministry in the winter of 1943–4 that no change in its opposition to further relief measures was yet practicable; but the pressure grew. Soon the United States Government began to urge the British to agree to some token relaxation of the blockade as a means of appeasing public opinion in an election year.

One of Mr. Hoover's most active supporters was Mr. Howard Kershner, who had been responsible for relief distribution in Unoccupied France until the Germans took over the whole country at the end of 1942. He had at once begun to appeal for continued help to France, and his campaign, which started with letters to *The Sunday Times* (17th January 1943) and *The Times* (20th January), was continued in articles and broadcasts on the subject in Great Britain and the United States. In one influential broadcast in September 1943 he proposed the sending of 50,000 tons monthly of a combination of cereals, fats, and milk; in the spring of 1944 he was advocating help by way of food and medical supplies for 10,000,000 children and mothers in France, Holland, Belgium, and Norway. These proposals and others like them received some support in the United States press, and a motion for the lifting of the blockade was put forward by Senator Gillette, strongly supported by Senator Taft. It called on

¹ Some of the administrative problems involved in this relaxing of the rigours of contraband control have already been discussed: see pp. 423–4, 445 above.

the State Department to work out with Great Britain, Switzerland, Sweden, and other Governments a system of privately-financed relief. On 13th November 1943 Lord Halifax reported heavy onslaughts on the policy of blockade in the testimony before the Foreign Relations Committee of the Senate on this motion, and on the 16th the Ministry again massed its arguments against relief—arguments with which the State Department and F.E.A. expressed complete agreement a week later.¹ But by March 1944 there was a strong feeling in Washington that the existing position might prove untenable, and fresh American proposals were handed to Lord Selborne on 29th March. The President had already telegraphed to the Prime Minister proposing milk and vitamins for the occupied countries (although he omitted Poland). Lord Selborne estimated that the proposals would involve 10,000,000 people and 30,000 tons of dried milk and vitamins monthly; the volume alone would create formidable problems, and distribution would be very difficult on the eve of OVERLORD. The answer was that the British Government was sympathetic but that these relief measures were impossible in view of the impending military operations.

The Resolution on relief, debated in the previous November, had in the meantime been approved unanimously and without debate in the United States Senate on 15th February 1944; a similar resolution was unanimously reported to the House of Representatives on 20th March and the vote taken on 3rd April. The 'Feed Europe Now' campaign continued; it was taken up by Mrs. Clare Luce. Church magazines, *Colliers*, *Life*, and the Scripps-Howard newspaper chain condemned the Administration for having 'bowed for more than two years to Mr. Churchill's blind spot on the issue'.² Mr. Stettinius, on a visit to Britain, raised the matter again with Mr. Eden on 24th April 1944, and urged the British Government to agree to some gesture to assist the United States Government. Though he realized it would be impossible before the forthcoming

¹ These arguments were as follows. Current proposals centred on supplies to Belgium and extra supplies to Greece, neglecting claims of other occupied territories; conditions in this war were not comparable with those in the last, in view of the vastly greater area and population under enemy control; if earlier relief schemes had not been rejected, an immense burden would now lie on the resources of the United Nations, with doubtful advantage to the suffering peoples but certain advantage to their German oppressors; food was equivalent to manpower; the two governments had been reluctantly driven to the conclusion that necessary conditions did not exist for the successful operation of schemes for the exclusive benefit of children; it was impossible to ensure that food relief supplies would remain supplementary to existing relief without full control of the internal food economy of the countries in question; the assumption that supplies were plentifully available to the Allies was incorrect; active operations for the liberation of the Continent were pending and a complex scheme for the importation of foodstuffs would be an embarrassment to such operations; no scheme, however limited, could be put into effect before the following March; the Greek scheme was exceptional.

² A senator asked (May): 'May I express the sincere hope that the Prime Minister Winston Churchill of Britain will allow our State Department to carry out the express will of Congress and the American people, so that all these children may receive food.'

operations to give effect to the Congress Resolutions even if it were desirable to do so, he hoped for some approach to the Germans by way of the Swiss Government. Mr. Eden said that not one of the refugee Allied Governments was pressing for any such step, and he could only repeat that it was not practical politics. But he would be willing, if Mr. Churchill concurred, for the State Department to tell the movers of the Resolution that for operational and security reasons the British Government had turned the suggestion down. In other words the Administration could put the blame on the British if that would get it out of its difficulty. Lord Halifax, however, did not like this; he wanted the matter put to the Combined Chiefs of Staff: 'the reverence accorded here to any decision taken by the military authorities would be likely to stifle criticism of the Administration'. In June Mr. Winant suggested as an alternative 'gesture' that limited supplies of food should go in ships carrying prisoner-of-war supplies (U.S. and Canadian Red Cross) from the United States to Marseilles. This 'modest programme' should materially assist in dispelling criticism of the inflexible Allied policy. Unfortunately the ships had already sailed, and in any case there was never any room to spare in them.

Meanwhile Mr. Dingle Foot had visited the United States during the first half of June, and had agreed with various American departments for relief to civilian internees in camps (550 tons monthly in 100,000 food packages, for three months, as and when space was available in the prisoner-of-war ships); for increased shipments from Sweden¹ to Norway; for increased purchases in Spain, Sweden, and Portugal; and further efforts on behalf of children (evacuation). However, the State Department still wished its gesture to take the form of joint discussions on the lines of Lehman's committee plan of April 1943.² A letter³ from Mr. Hull to Mr. Winant on 1st July 1944 rejected the plan to consult the Chiefs of Staff, and proposed Anglo-American discussions in London to examine the possibility of providing limited amounts of foodstuffs for distribution to children and to nursing and expectant mothers through the International Red Cross. Lord Selborne now felt that it would be best to agree to the American suggestion, which Mr. Winant had referred to as in a measure 'a political issue at home', and after the Cabinet had accepted the plan an Anglo-American committee was set up, and held its first meeting on 20th September. It at once became clear that the committee, whether or not it was of value to the United States Administration for domestic reasons, could serve little useful purpose. Owing to the rapid advance of the Allied armies it was now only possible to con-

¹ Quantity of foodstuffs that might be authorized by J.S.C. for export to Norway without reference back would be increased from 250 to 500 tons per month.

² See p. 280 above.

³ A copy of this letter was given to Mr. Eden by Mr. Winant on 19th July 1944.

template making definite arrangements in the case of Norway, Poland, and Czechoslovakia; other areas, upon their release by the Allied forces, were coming automatically under the charge of A.M.G.O.T. or U.N.R.R.A. In any case, as Mr. Winant remarked at the first meeting, public pressure favouring greater relief action had died down very markedly in America since the landings in France, when it had been found that the countryside was not so impoverished as had been expected. Indeed, in these last months of the war, British opinion showed much more concern than opinion in the United States with the relief of the liberated areas. Detailed plans for the areas still under German occupation were put forward on 3rd October 1944 by a sub-committee under Mr. Dingle Foot's chairmanship, and were carried out during the following winter as far as the diminishing opportunities permitted; in the rapid changes of the last phase of the war the necessary pre-conditions, including the receipt of safe-conducts and other guarantees from the Germans, could not always be secured.

The process of liberation tended to confirm the first impressions, gained after the Allied landing, that the relief propagandists had greatly exaggerated the degree of privation in the occupied areas. There appeared to be no evidence of serious malnutrition except in Holland; elsewhere deficiencies were due to lack of sufficient calories rather than to lack of vitamins. The Dutch picture was far more serious and this at first caused surprise in view of the normal agricultural resources of the country. A possible explanation was thought to be that food collection was relatively inefficient in Belgium and France, so that a considerable black market flourished: in Holland the organization had been far more efficient, the black market was smaller, and the Germans had reaped the benefit. When the Allies advanced they did not find the reserves that they had expected there.¹ In the case of Belgium the extent of relief inside the blockade had been generally underrated, although not by the Ministry. Even the battle of France did no more than temporarily dislocate these intra-blockade supplies; information came in September 1944 that all the relief consignments sent since April 1941 from Portugal, Spain, Switzerland, and Sweden had arrived safely in Brussels for gratuitous distribution to the poor. Professor Cammaerts, who in January 1944 had told the Foreign Office that Belgium was as much in need of

¹ The most urgent problem, which arose in the last weeks of the war, was that of feeding the occupied Dutch cities from which supplies had been cut off by military operations. W. S. Churchill, *Triumph and Tragedy* (London, 1954) pp. 409-11. Two Swedish relief ships were sent in February 1945. A third ship, the *Hallaren*, was sent in March. There were limits, however, to what Sweden could send without compensatory imports. In April therefore it was arranged that the Swedish ship *Gotland* should sail for England, which would make available further supplies for Holland (including 16,000 tons of flour, 3,000 tons of margarine, and 1,000 tons of other foodstuffs). Considerable medical supplies were also to be sent. Further supplies would in due course come from North America.

special treatment as Greece, thereupon made amends, in a conversation with Mr. Dingle Foot, for his more recent strictures.

I am ready to agree that I was perhaps over anxious concerning the scarcity of food, because I did not realize at the time that the liberation would come so soon, and to what extent even poor people were able to benefit from the black market by organizing it themselves.

To which Mr. Dingle Foot replied equally courteously that the Ministry had also not fully appreciated the extent of the black market. The Ministry had, however, already been proved right in its assumption that in Belgium, as distinct from Greece, the German Government had felt it expedient to feed the occupied people.¹

There was widespread feeling in both Houses regarding the relief problem. In a debate in the House of Lords (14th December 1944) on the subject of U.N.R.R.A., Lord Selborne specifically exonerated the Archbishop of Canterbury and the Bishop of Chichester of over-exaggerating the situation in Europe; but a large number of their supporters in the agitation for relief had gone much further. He instanced the Famine Relief Committee, with branches up and down the country, and similar organizations in America, which had denounced the Minister's statements as untrue and in thousands of communications and speeches had accused the British Government of starving the people of occupied Europe.

I would like now to say that the facts, as we have been able to ascertain them since the liberation of a large part of Europe, have proved that the information supplied to me by my Department was correct, that the information which came to us from secret sources through the enemy's outposts was correct, and that the situation was as I described it.

¹ Professor Fernand Baudhuin, *L'Économie Belge sous L'Occupation 1940-44* (Brussels, 1945), pp. 199-224, 318-22, gives a detailed account of the black market mechanism and its success in defeating the efforts of the German-controlled administration to stabilize salaries and prices. See also 'The Black Market', by Raoul Miry, Chap. IV of *Belgium under occupation* (The Moretus Press, New York, 1947) pp. 65-79, and G. Jacquemyns, *La Société Belge sous l'Occupation Allemande, 1940-1944* (Brussels, 1950), pp. 52-74. Brandt, *op. cit.*, chap. 24 *passim*, and pp. 442-74 more specifically, describes the detailed German arrangements for feeding Belgium. The intra-blockade purchases are mentioned briefly on p. 471. 'For selfish reasons alone, it was critically important for the occupation power to feed the people, particularly those in the major industrial centers, so that disease, strikes, and unrest could be prevented. . . . Thus Belgium became the only occupied country to receive from Germany or other occupied countries, or through German negotiation and pressure, substantial additions to its food supplies' (pp. 449-50). Speer in a letter to Keitel in March 1942 remarks that the Military Governor of Belgium had founded his own 'Black Market Purchasing Company'; Hitler had given orders that the Governor was to give the widest assistance to Speer's agents who were also engaged in buying black market stocks in France and Belgium. Speer comments that this purchasing had gone on smoothly in France, but in Belgium his man had been hampered by the opposition of the military authorities. Speer (Hamburg) Documents, 22nd March 1942, para. 19. Miry remarks, 'The Belgian black market had to conduct a bitter competition against clandestine German purchases' (*op. cit.*, p. 77).

The Bishop of Chichester intervened to wonder whether the Minister was not confusing the Famine Relief Committee with another organization. The Minister later observed

There were thousands of philanthropists all over this country and in America who said a great many things for which they ought to apologize.

This brought indignant replies from the secretary of the Food Relief Campaign and from the Manchester and Salford branch of the Famine Relief Committee, the latter arguing that there had been far too long delays in getting food to the liberated countries.

Demands or proposals for the easing of the blockade also came from the European neutrals who could argue that with the cutting off of their trade contacts with Germany the rationing quotas had lost their value. The Ministry was prepared before the end of 1944 to agree that it was becoming increasingly unnecessary to maintain a strict control for economic-warfare reasons alone, but it had supply and even some economic-warfare grounds for postponing the complete freeing of neutral trade.

On supply grounds it was considered illogical to allow the neutrals a free hand at a time when imports of certain commodities even by the Allies were still being restricted. Indeed, some of the Allied representatives on the Combined Board sub-committee had been opposing any allocation of certain commodities to the neutrals. The Ministry was satisfied that in the general interest some of these allocations were necessary, and accordingly plans for a fairly long-term programme were drawn up in January 1945; after the agreement of the State Department had been secured they were put to the Allied Governments primarily interested, namely the French, Netherlands, Belgian, and Norwegian. The basis of this programme was a 'Reserved Commodities List' of the more difficult goods, the import of which by the neutrals would continue to be restricted. It was intended that this list should continue into the post-war period, when it could be progressively reduced to a short list of key commodities which it was hoped that the neutrals would allow to be regulated as part of a plan for the fair distribution of all short supply commodities. With some important modifications the plan did survive the war.

The neutrals did not take these restrictions in very good part. Nor did it prove altogether easy to use neutral supplies for relief and other purposes in liberated Europe. A good example was the difficulty of making early use of surplus textile manufacturing capacity in the Iberian Peninsula for purposes of relief and

rehabilitation. At first the chief obstacle was the excessive price of Spanish textiles, which the Spaniards claimed was largely due to the irregularity and insufficiency of the supplies of raw cotton and wool. Some purchases of cotton textiles, towelling, sheeting, and bedding were negotiated in Portugal by the French and the United States Army, but Spain should have been a much more fertile field, since productive capacity there was much greater than in Portugal, and the Allied financial position was much easier. The question of more reasonable prices in Spain was bound up with the provision not only of regular supplies for home consumption but also of compensating imports of raw materials to replace the quantities utilized in the manufacture of textiles for export; it also depended on the lowering of Spanish import duties on the raw materials and of export taxes on the finished article.

The desire of U.N.R.R.A. and the U.S. Army to buy blankets gave an opportunity to test the position in the new year, and the British and United States embassies in Madrid then offered to make large purchases of blankets at a reasonable price in return for supplies of raw wool. Señor Carceller's response seemed satisfactory. But then fresh difficulties appeared. The State Department professed alarm at the possibility that the proposal to purchase textiles in Spain would foster the industry there, when the real need was to resuscitate industries in the liberated areas. The British reply to this one was that any undue fostering of the Spanish textile industry was due to the action of the U.S. War Department in going ahead with purchases in Spain regardless of price; moreover, Spain had available not only productive capacity but also shipping to carry the necessary raw material. The next piece of news, early in April, was that the U.S. Army had plans to purchase the entire surplus Spanish manufacturing capacity for the next four or five months. This would cut right across a complicated but workable scheme under which the surplus of U.N.R.R.A. wool was to provide the raw material for the United States blankets. Finally, after much telegraphing between Madrid, Paris, London, and Washington it was discovered that the fear of political repercussions in the United States as a result of having dealings with Fascist Spain has now become too strong for U.N.R.R.A., which could not obtain authority from Washington to proceed with the deal. The net result was that the U.S. Army appeared likely to secure its blankets at a lower price. But U.N.R.R.A. had to look elsewhere.

We need not pursue this matter further; it is an example of the complications which at once arose in this period of half release from the pressure of blockade. The key to the situation was that the supply of raw material to Spain was still controlled by the navicert machinery; to this extent the Allies were compelled to take responsi-

bility for neutral trade. There were also, of course, some specifically blockade reasons for continuing the controls. As early as September 1944 the Americans were said to be in favour of the abolition of censorship and navicerts three months after the armistice with Germany. On the other hand there were proposals to continue the blacklisting of the more important enemy firms for a considerably longer period, and it was doubtful whether without these controls black-list sanctions could be effective. All that could be said was that, even without censorship control, the mere fact that a firm was on the Statutory List would be a deterrent to large and reputable concerns such as banks, insurance companies, and the like having dealings with it. It was more certain that even if navicerts were abolished the system of ship warrants would have to be continued until the end of the war with Japan, in order that the shipping of the world could be mobilized for the final war effort. The abolition of censorship might also open channels of communication through neutral capitals with Japan, although it was thought that a censorship ring could continue to be drawn round the Far East, after its abolition in Europe.

However this may be, there were a number of possible leaks in the blockade in Europe which had to be blocked during the last months of German resistance. Thus at the beginning of 1945 the Lufthansa air service still continued between Spain and Germany, although the flights were irregular and did not average more than one or two a week. Bulky goods could not be carried in any quantity, but the service might still constitute a dangerous leak in the blockade as far as small commodities such as platinum, diamonds, iodine, and the like were concerned. At first the Spaniards were unwilling to eliminate the service, for they argued that it was now their sole means of keeping in touch with their own nationals in Central Europe. They promised to see that it was not used for the export of Spanish goods to Germany, but for some time the Ministry was by no means satisfied that this promise was being kept. Accordingly quotas for small-bulk commodities from overseas which might be sent to Germany by air continued to be strictly controlled. In March the Spanish Government agreed to suspend the service in return for a courier service across France. More important for the future was the fact that the Iberian Peninsula, which had served during the last few years as the chief channel for goods smuggled into Axis Europe, was now beginning to witness the reversal of this process: contra-band control was therefore strictly maintained in order to prevent the export from Spain of enemy-owned assets, loot, and goods containing any enemy interest. It was also necessary in order to stop the flight of war criminals. All outward-bound Spanish ships were searched and it was decided that up to 20 per cent. of outward-bound

Portuguese ships (including all those sailing to South America) should be similarly dealt with.

In Switzerland, too, there were some outstanding problems. The Swiss prohibited from 1st January 1945 the export of the goods not covered by their previous prohibition, and they closed the Simplon route to transit traffic. The Gotthard route remained open. The Ministry was willing to give the Swiss immediately, in return for what they had already done, the import facilities that they had originally been offered, together with further facilities if they would agree to prohibit transit traffic altogether. But the Americans found it hard for some time to make up their minds. There was the usual pressure for coercive measures, but the State Department, like the Foreign Office, was unwilling to take an extreme course against the Swiss Government in view of the humanitarian and other services which it had rendered, and was still rendering, to the Allies. When there were some attacks on Switzerland in the American press, Mr. Stettinius told the Swiss Government, through the United States legation in Berne, that these statements did not represent the State Department's policy. And yet the transit traffic might be of great importance. It was known that the German High Command had plans for a last stand in a powerful redoubt in the mountains of Bavaria and the Tyrol, and that the forces of Marshal Kesselring were sufficiently strong and well-equipped to put up a formidable resistance when they were withdrawn there. If the last stand took place in the redoubt, Switzerland must not furnish it with supplies. Apart from this, the Allied military authorities were pressing for a complete cessation of transit traffic on the ground that the supplies from Germany were prolonging the enemy's resistance in Italy itself. Meanwhile the Swiss were negotiating with the Germans commercial arrangements for the six months from 15th January 1945, and urgently needed to know what the next Allied demands would be, and whether they would be rewarded by imports from Allied sources in return for what they had already done to meet Allied wishes. They accordingly invited the British and American Governments to send delegations to Berne, and the State Department finally decided, at the end of January, to send Mr. Lauchlin Currie, formerly a Deputy Administrator of F.E.A. The Ministry sent its Parliamentary Under-Secretary, Mr. Dingle Foot.

By this stage the Swiss Government was ready to concede the substance of the Allies' remaining demands, although a formal breach with Germany was avoided by the maintenance of some token exports. There was no German stand in the redoubt, so that this economic-warfare problem soon lost its importance. The negotiations proceeded smoothly, and the conclusion of the final agreement in March 1945 was greatly helped by arrangements with the French

Government and S.H.A.E.F. for reasonable transit facilities for Swiss exports and imports through France. The main provisions may be summarized as follows.

1. The carriage of coal, iron, scrap iron, and steel from Germany to Italy was prohibited. Other traffic would be limited to monthly totals of 8,200 tons southbound and 5,900 tons northbound.¹
2. Total Swiss exports to Germany were not to exceed 2,500,000 francs for each of the next two months and 1,000,000 francs thereafter.
3. The Swiss were to take all practicable steps to cut off the supply of electricity to Germany and to agree in principle to supply electricity to France.
4. The Swiss Government would prevent Swiss territory from being used for the disposal, concealment, or reception of assets which might have been taken illegally or under duress during the war. The Swiss decree blocking German funds would continue in force. A census would be taken of all German assets situated in or held through Switzerland, whether they were administered by the German owners themselves or by others on their behalf.
5. The Swiss were to purchase no more gold from Germany except the quantity needed for diplomatic expenses, including expenditure incurred as the Protecting Power.
6. All dealing in foreign currency would be prohibited in Switzerland.
7. The Swiss would cooperate in the rehabilitation and relief of Europe.
8. The Swiss would cooperate with the Allied Supply authorities in making purchases abroad.
9. As there was no longer any blockade reason for withholding supplies the Swiss were told that the Allies would no longer impose any limits on Swiss imports, except in the case of goods in short supply.

This was the last of the long series of agreements concluded by the Ministry with the European neutrals during World War II, and it brought to an end, except for the token trickle, the exports to Germany of all important items that had not been previously eliminated. But the war in Europe had only a few weeks more to run. More important from the Swiss point of view were the provisions for the resumption of normal economic contacts with the victorious powers;

¹ This compared with a monthly average in the first half of 1944 of 404,000 tons southbound and 56,000 tons northbound.

more important from the Allied point of view were the provisions for preventing the escape of Nazi assets and private loot.

The Allied Governments had been greatly worried about this last possibility since the middle of 1944, and increasingly elaborate precautions were being devised under what had come to be known as the *SAFEHAVEN* programme. We must conclude this chapter with some account of this programme; *SAFEHAVEN* was, however, essentially a problem of post-war adjustment, and lies for the most part outside this story of the economic blockade during the second World War. There were three aspects of the problem which concerned the neutrals, and which could, in the first stages, be watched by the blockade authorities. The first was that of tracing and restoring loot—objects of art and the like which had been seized or sold under pressure and had found their way into neutral territory. The second was that of preventing the escape of war criminals and their assets. The third, and as it seemed in the last year of the war the most important, problem was that of preventing Nazi Germany itself from preparing in defeat for its ultimate resurgence by establishing funds, technicians, and even the industrial basis of re-armament in neutral countries and under neutral cloaks.

The problem was one to which the United States Government had been peculiarly sensitive as a belligerent from the start; indeed, the policy of hemisphere defence had already pointed before 1942 to the elimination of Axis-dominated companies in the Americas.¹ But although its main preoccupation was with the Americas it was only too well aware that the European neutrals would often provide the channel of escape for Nazi interests, and that it was necessary to strike as closely as possible to the source of a possible future Nazi power. As it happened the post-war decade was to show that these fears were exaggerated; the new Germany did not find or seek through foreign subsidiaries the systematic opportunities for re-armament that had been exploited so ingeniously under the Weimar régime. This was partly, however, because the Allies took good care that the chance to do so did not exist. A resolution of the Rio conference in January 1942 had recommended the elimination of all commercial and financial intercourse between the Western Hemisphere and the Axis, and had contemplated the elimination of 'all other financial and commercial activities prejudicial to the welfare and security of the American Republics'. At the Washington conference in June–July 1942 it was recommended that the business of any persons who were acting against the political and economic independence

¹ There is a brief reference in *The Memoirs of Cordell Hull*, ii, 1360–4.

or security of the American republics should be the object of blocking, occupation, intervention, forced transfer, or total liquidation.

In the policy of listing and elimination that followed it had been necessary for the United States Government to move carefully and in cooperation with the Latin-American Governments, and it had been supported in these efforts, as we have seen, by the Ministry and its representatives in Latin America, who were in the earlier stages very much more experienced in listing matters. On 5th January 1943 an inter-Allied declaration (issued by eighteen of the United Nations, including Great Britain, the U.S.A., and the U.S.S.R.) warned all people concerned, and particularly those in neutral countries, that looting and all other acts of dispossession carried out by the enemy, 'even when they purport to be voluntarily effected' would not be recognized; the Allies intended to do their utmost to defeat all these practices. The declaration was given wide publicity, and helped to forestall pleas of innocent purchase; wherever possible the attention of neutral governments was called to property which was believed to be looted, and individuals warned that the purchase would be followed by blacklisting. Similar publicity was given to a declaration of 22nd February 1944 by the British, United States, and Soviet Governments stating that they would not recognize transfer of title to looted gold. As Germany was believed by this stage to have exhausted the gold on hand when she entered the war, it was assumed that any gold purchased thereafter by neutral countries from Germany would be looted. The next landmark was Resolution VI of the Bretton Woods agreement, a more elaborate formulation of the earlier proposals for pressure on neutral Governments. It recommended

That all governments of countries represented at this conference take action consistent with their relations with the countries at war to call upon the governments of neutral countries

(a) To take immediate measures to prevent any disposition or transfer within territories subject to their jurisdiction of any

(1) assets belonging to the Government or any individuals or institutions within those United Nations occupied by the enemy; and

(2) looted gold, currency, art objects, securities, other evidences of ownership in financial or business enterprises, and of other assets looted by the enemy;

as well as to uncover, segregate and hold at the disposition of the post-liberation authorities in the appropriate country any such assets within territory subject to their jurisdiction.

(b) to take immediate measures to prevent the concealment by fraudulent means or otherwise within countries subject to their jurisdiction of any

- (1) assets belonging to, or alleged to belong to, the Government of and individuals or institutions within enemy countries;
 - (2) assets belonging to, or alleged to belong to, enemy leaders, their associates and collaborators;
- and to facilitate their ultimate delivery to the post-armistice authorities.

Great Britain accepted this resolution along with other signatories of the Bretton Woods agreement.

The most obvious cases of loot were those of paintings and objects of art seized in contravention of the Hague Regulations of 1907. Owing to their convenience for handling and smuggling they provided an easy means of transmitting property abroad, either for personal advantage or for propaganda, espionage, and other purposes. Mr. W. L. Clayton told a sub-committee of the Senate Committee on Military Affairs on 25th June 1945 that the total value of works of art confiscated or acquired by fictitious purchase in paper marks by the Nazis was estimated at more than a billion and a half dollars. 136,000,000 dollars' worth had been looted in Holland alone, often by forced purchase with occupation currency or German marks. Other items were simply seized. Agents who worked for Goering, Goebbels, Ribbentrop, and others included Andreas Hofer, a Berlin art dealer, Dr. Hans Wendland in France, and Alois Miedel in the Netherlands. The successful frustration of one of Miedel's activities took place in March 1945, when the United States embassy in Madrid was allowed by the Spanish authorities to inspect three cases of paintings which had been deposited in Miedel's name in Bilbao on 24th July 1944 with a blacklisted firm, Bacquera, Kusche and Martin. The cases of 22 paintings included ten from the famous Goudstikker collection of Amsterdam.¹ Miedel had subsequently been arrested in France by the *Maquis* but had escaped over the border into Spain, where his arrest had been ordered by the Spanish Government at the end of 1944. Apart from these more spectacular happenings, there was the constant problem of preventing the movement of enemy agents, sometimes masquerading as refugees, sometimes with furs, essential oils, and other possessions which they claimed to be their sole assets. As the end approached the enemy agent himself became a new form of refugee. The Ministry of Economic Warfare had been grappling with this problem under its passenger and crew control arrangements since June 1941, and had a well-tried machinery for the purpose.²

However, what seemed the major problem was that of frustrating

¹ Elimination of German Resources for War: Hearings before a Sub-committee of the Committee on Military Affairs, U.S. Senate: Part 2: Testimony of State Department, 25th June 1945 (U.S. Government Printing Office, Washington, 1945), pp. 50-1.

² See chap. V, section ii and chap. XIV, sections ii, iii, above.

the building up of an economic base for future German aggression in neutral countries, and to this end to separate Germans in the post-war era from the economic resources which they had established there. The first step, taken at the end of 1944 by the British and United States Governments, was to bring Resolution VI of the Bretton Woods agreement officially to the attention of the neutral Governments in Europe; following upon this, they were told that the two Allies expected them to prohibit the import of gold which was known to be the property of any nation not subscribing to the Resolution. The neutrals did not at first show any readiness to reply. The United States Government proposed that the next step should be to enforce the *SAFEHAVEN* programme by linking it with the new phase of Anglo-American supply-purchase negotiations during the early months of 1945.

This led to the last of the long series of Anglo-American differences over tactics, and it arose, as so often before, through the American tendency to concentrate on a single objective to the exclusion of supply and other interests which the British could not so readily ignore. In the case of Spain the State Department put forward detailed proposals in February for making the provision of commodities in short supply dependent on a number of conditions. The two most important of these were the limitation of exports of Spanish goods containing more than 5 per cent. of materials imported through the blockade, and the cooperation of the Spaniards in the *SAFEHAVEN* programme. The Ministry did not dissent 'in principle' from any of the conditions (several were anyway of slight importance) but felt that the *SAFEHAVEN* programme should be taken up at a high level as a separate negotiation instead of being linked directly with the supply-purchase negotiations, which in the past had been carried out more informally. This was partly tactical: it was thought that the weapon of withholding short-supply materials from Spain was best kept in reserve in case the Spaniards proved obstructive over *SAFEHAVEN*. But it is also true that the British Government was in urgent need of certain supplies from Spain, and felt that the introduction of this important and controversial subject at a late date in the current supply-purchase negotiations would produce unfortunate delays. The proposal to limit exports was clearly directed against Spanish exports to Argentina. The British Government saw no objection to requiring the Spaniards not to export goods containing a substantial proportion of any short-supply commodities, but felt that it should resist any attempt to broaden the restrictions on purely political grounds.

However, no serious delays followed. The British and United States embassies in Madrid appear to have agreed broadly with the Ministry's views, and it was arranged with the State Department

that the two missions in Madrid should be left considerable latitude as to the exact demands and methods of presentation, but should start by demanding, (a) acceptance of Resolution VI; (b) freezing of all Axis assets; (c) if necessary, freezing of all assets of Axis satellites; (d) a census of assets under (b) and (c). At the same time the Argentine declaration of war on 27th March 1945 and the subsequent British and United States recognition of the Argentine Government promised to change the American attitude towards neutral exports to Argentina—thus removing the tiresome problem which had for long been an irritant in the Ministry's relations with both the exporting neutrals and the Americans.¹ By this point a satisfactory basis for a joint Anglo-American approach to Sweden on *SAFEHAVEN* matters had been found, and the Ministry, in agreement with the Foreign Office, proposed the same procedure in the case of Portugal. Here, too, as in the case of Spain, the British authorities preferred to handle their *SAFEHAVEN* demands as a separate political matter and not directly as one of the conditions of a post-hostilities economic agreement.

With Germany now on the point of final military collapse the neutrals hastened to satisfy the more formal of the Allied *SAFEHAVEN* demands; how far these concessions would be implemented over the host of individual cases that would arise was of course a matter for the future. But the immediate steps were satisfactory enough. We have seen that the Swiss agreement with the Allies in March² had provided for the continued blocking of German funds, a census of German assets, the virtual discontinuance of purchases of German gold, and steps to prevent the use of Swiss territory for the benefit of Axis loot. Switzerland in the name of neutrality was not prepared to insert Resolution VI textually into the agreement, and was not prepared to make available to the Allies information about German accounts in Swiss banks. The agreement was, however, followed by Swiss legislation providing for the blocking of German accounts and a census of German property. The Spanish Government issued a decree in accordance with the four Allied requests on 5th May 1945, and this was followed by a similar Portuguese decree. An agreement over supply-purchase and *SAFEHAVEN* matters had been concluded in principle with Sweden in March, although ratification had been delayed by further Anglo-American discussions about the exact form of the *SAFEHAVEN* demands. However, the Swedish Government made no difficulties about accepting the substance of the Allied proposals, which were embodied in legislation in the Swedish Parliament on 27th June 1945.

These were, of course, only beginnings. The Allied Governments,

¹ *The Memoirs of Cordell Hull*, ii, 1407-8.

² See p. 621 above.

having secured this measure of official cooperation from the European neutrals, sent investigating teams to scour Germany for evidence of the German side of SAFEHAVEN transactions, and the next stage was the final and decisive one of finding and taking possession of the fruits of Nazi victory. The difficulties began to mount when the neutrals were pressed to hand over the Nazi nest eggs, and although the Allies strengthened their hands at Potsdam their right to take over property that was subject to neutral law and jurisdiction was not always easy to assert. This is the main SAFEHAVEN story, which must be told elsewhere. The high-light of the story was the struggle with the Swiss, who denied the Allied right to German property in Switzerland, and proposed to use it to discharge German debts to themselves. After a deadlock and difficult negotiations between March and May 1946, an agreement was finally reached in Washington on 25th May 1946 providing for an equal division of German assets between Switzerland and the Allies; a similar agreement with Sweden was concluded in July 1946.¹

These matters were handled in London mainly by the Foreign Office, which had taken over most of the Ministry of Economic Warfare's remaining functions by 1st June 1945. Plans for the winding up of the Ministry had been under discussion since D Day. The Enemy Branch of the Ministry had been transferred to the administrative control of the Foreign Office on 6th April 1944.² Most of the overseas staff of the Ministry was taken over by the Foreign Office and the Department of Overseas Trade on 1st April 1945. On 15th May, a week after the German surrender, Lord Selborne sent his resignation to Mr. Churchill in the following letter.

As you are aware, I have long held the view that the continuation of the Ministry of Economic Warfare would not be justified after the cessation of hostilities in Europe. Since Japan is an island, the blockade of that country is necessarily a much simpler operation than the blockade of Germany: all its foreign trade can be, and has been, throttled by the Allied navies and air forces. The elaborate work of negotiation with contiguous neutral countries and firms situate in

¹ The full story of SAFEHAVEN awaits the historian. There is a useful sketch in Gordon and Dangerfield, *op. cit.*, chap. XI. Copious evidence, and the key documents of the war period, were cited in hearings of 25th June 1945 before a U.S. Senate Committee (reference in footnote 1, p. 624 above). See also Martin Domke, *The Control of Alien Property* (New York, 1947), pp. 9-10, 108, 112, 279-80. Some of the legal aspects are examined by Martin Domke, "Piercing the Corporate Veil" in the Law of Economic Warfare' (*Wisconsin Law Review*, January 1955). There is much useful information on the post-war position of the neutrals in *The War and the Neutrals* (a volume in the *Survey of International Affairs, 1939-1946*, ed. by A. and V. M. Toynbee, for the Royal Institute of International Affairs, 1956), particularly pp. 150-70, 224-8 (Switzerland), 303-13 (Spain), and 361-6 (Turkey).

² See Appendix IV below.

them therefore does not arise. Although a certain amount of economic warfare work will remain, the volume will be so greatly reduced that it will be unnecessary to continue a separate department for the purpose.

I know that you consider that war-time departments should be terminated as soon as they are no longer necessary, a view that I share strongly, and in the present circumstances, therefore, I think that the Ministry of Economic Warfare should be wound up and its remaining functions allotted to the appropriate department. I accordingly tender my resignation as Minister for your submission to His Majesty.

In his reply on 25th May Mr. Churchill agreed with Lord Selborne's view that the time had come to wind up the Ministry. He added,

The Ministry of Economic Warfare has played an important part in the great victory which we have won, and you and all members of your staff can look back with just pride on your work.¹

With this brief word of commendation the Ministry came quietly and quickly to an end. The Minister's responsibilities under the Defence (Enemy Currency) Regulations 1941 were transferred to the Foreign Office on 28th May.² The Foreign Office took over what remained of the M.E.W. staff on 1st June 1945, with the setting up of an 'Economic Warfare Department' under Mr. G. H. Villiers. *SAFEHAVEN* was the most important of the Ministry's former functions which this department had to handle. Claims arising from seizures ordered by the Contraband Control (Blockade) Committee were expected to continue for long after M.E.W. had closed down and were a matter for the Procurator General's Department. 'Black List' matters went to the Trading with the Enemy Department. 'Enemy Transactions' became a matter for the Trading with the Enemy Branch or the Treasury. In Washington the residual functions of the War Trade Department were taken over for the most part by the Commercial Department of the embassy. By the summer of 1946 the world was girding itself for new tasks and new challenges, and the British Government departments which still had to concern themselves with economic-warfare problems were now impatient to get rid of them. On the cessation of hostilities with Germany the British and United States Governments had agreed that 8th May 1946 should be adopted provisionally as the date for the abolition of the black lists. The neutrals fiercely resented the continuation of the lists and they were therefore a valuable bargaining counter in the *SAFEHAVEN* negotiations which have been outlined in the preceding section. Obviously when a satisfactory bargain could be

¹ *The Times*, 28th May 1945, p. 2d.

² S.R. & O. (45) No. 613. The draft of an order revoking the Ministry of Economic Warfare Order 1939 was prepared, but never issued.

struck, one of the concessions would be the immediate abolition of the lists in the case of the neutral concerned. By the spring of 1946 it was, however, evident that the SAFEHAVEN negotiations would not all be concluded by 8th May, and the Board of Trade and other departments concerned agreed very reluctantly to the continuation of the lists up to 30th June if these were essential in connexion with the SAFEHAVEN negotiations, 'but not a day longer'.¹ As it turned out, the negotiations took a satisfactory course, and the Foreign Office was relieved that the tension caused by this aspect of the continuance of the controls should at last end; for although the controls were, in theory and substance, Anglo-American, the whole odium—which was very considerable in exporting countries—fell on the British, who actually ran the machinery. It must, of course, be remembered that these controls—the system of navicerts, certificates of origin, and ex-passes—had continued in force primarily to control the movement of commodities in short supply and thus to prevent any country from getting more than its fair share of them. The supply situation was now easing, and the Foreign Office was finally able to announce that the navicert and certificate-of-origin systems would be withdrawn on 30th September 1946.

¹ The Proclaimed List of Certain Blocked Nationals was withdrawn by the U.S. Government on 8th July 1946 (M. Domke, *The Control of Alien Property*, pp. 108–9).

CHAPTER XXII

ASSESSMENT AND PERSPECTIVE

IN any attempt to assess the Allied achievements in economic warfare we encounter a preliminary problem of definition. It has been the purpose of this work to describe the more important of these operations, and to show how they were adapted to meet the problems and opportunities of each stage of the war. But in its widest application the term 'economic warfare' covered three means of defeating the German economic effort—blockade, counter-production, and attack behind the enemy's fighting front. Blockade, as the word was used generally during the second World War and is used in this book, covered only the operations by which supplies of raw materials or finished goods were prevented from reaching Germany or her allies from neutral sources in or outside Europe. No one expected the blockade to win the war single-handed: for no one imagined that so strong an industrial state as Germany, which had entered a war in all the glory of its armed might and economic power, could be brought to surrender merely by the cutting off of its foreign supplies. The effectiveness of the blockade was therefore directly related to the strain placed on Germany's resources in battle by the armaments and manpower of her opponents: a rigorous blockade, by restricting her completely to pre-war stockpiles, indigenous raw materials, and domestic production, would correspondingly weaken her in this struggle, but could scarcely be a substitute for it. Direct physical attack on German industry and domestic sources of supply, either by sabotage, or by bombing attack on factories and communications, or finally by the occupation of key mining and industrial areas, could reinforce the effects of blockade; it might even tip the balance cheaply and perhaps suddenly against Germany in the field of production. Essentially, however, the purpose of all economic-warfare measures was to 'soften up' the enemy before the decisive attack, which would have to be delivered by the armed forces.

Thus the three forms of economic attack were inter-dependent, and it is clearly no easy task to evaluate one in isolation from the other two. Blockade helped Allied production, because neutral supplies which were kept from Germany would often be available for Allied use. Blockade and direct attack also helped the counter-production effort of the Allies by limiting German output and so

hastening the day when Allied resources would be sufficient to outlast the enemy's in a war of attrition. The demands of Allied production in turn created shortages in raw material supplies which reinforced the blockade machinery in overseas neutral countries, and in some circumstances increased the bargaining powers of the blockade authorities in war-trade negotiations with the European neutrals. As it happened the term 'economic warfare' came to be applied in England during the greater part of the war to blockade alone, and it was often forgotten—although the point was really obvious enough—that all three processes were involved in the British Government's original plans for the economic side of the war. While the pre-war discussions limited the Ministry of Economic Warfare's functions to the first of these processes—blockade and the attack on the enemy's economy behind his lines by air bombing or sabotage—the second was very much a part of the Government's broader conception of how a war would be won. The assumption in 1939 was that at that stage the British and French forces were strong enough on land, at sea, and in the air only to maintain a defensive position against Germany and her possible supporters; but time was believed to be on the side of the Allies in the sense that when, after two or three years or more, their rearmament was completed they would be able to outstrip the enemy by their command of the greater economic resources of the free world.¹ The Ministry of Economic Warfare could hasten this day not only by blockade but also by supplying economic intelligence about the enemy to the service departments, and thus playing some part in the development of the production programme² and a more direct part in the bombing attacks on German industrial targets.³ One of its main functions was the continuous assessment of German strength.

At no stage of the war was Germany decisively weakened by shortages due to the blockade alone. That it was not a negligible factor in the Allied war effort is equally certain. This is at once apparent if we consider what would have been Germany's position with full immunity from economic pressure. Once or twice during the war, when it had been nettled by unkind suggestions that it was

¹ The inter-dependence of blockade and production as part of the overall economic war effort was recognized in the United States by the entrusting of both supply and blockade functions to the Board of Economic Warfare. This arrangement was more suitable to American conditions than to British, in view of the concentration of United States interest on the control of materials in Latin America.

² Full particulars of the British production programme will be found in the 'War Production Series', and in particular: M. M. Postan, *British War Production* (H.M.S.O., 1952), J. Hurstfield, *The Control of Raw Materials* (H.M.S.O., 1953), and J. D. Scott and Richard Hughes, *The Administration of War Production* (H.M.S.O., 1955).

³ The effects of Allied bombing on German economy are examined in the series of volumes under the general title, the *United States Strategic Bombing Survey* (1945). On the Ministry's function in supplying economic intelligence to the Air Ministry, see Appendix IV below.

-serving no useful (or adequate) purpose, the Ministry sought to justify its existence in these terms; a paper circulated on the subject in 1942 is a useful indication of this line of argument.¹

If There Were no Blockade

1. Germany would have been able to start her war of domination much sooner, if she had not had to make preparations against a blockade by laying in stocks of raw materials.
2. If there were unrestricted imports of raw materials to Germany, German armament production would be even greater in quantity than it is at present and superior in quality. On our side we would have no chance of gaining the qualitative lead in armaments for which we hope.
3. It is possible (though this should not be stressed) that Germany's strategy is partly determined by the need of supplies, e.g. from Russia and the Middle East. A blockade-less war would leave her much freer to concentrate on a military decision against Britain.
4. There would be no problem of civilian morale in Germany, if luxury foods, cotton, wool, etc., could be freely imported. As it is, the blockade affects the civilian consumer before the army, and ultimately creates a political problem—how far can civilian consumption be safely cut?
5. In the absence of imported food, and other raw materials such as oil, rubber and cotton, the Germans have to grow more food and manufacture their own substitute raw materials. This is very expensive in manpower. More men have to be kept on the land to produce the food, and more miners have to be employed to produce the coal which is the basis of synthetic oil and rubber. Some of this extra labour can be provided by prisoners of war or workers from the occupied countries, but the presence of too many of them in important posts where they have the chance of sabotage raises new problems of supervision for the Germans.
6. The blockade also cuts Germany off from the use of the sea routes which are the cheapest and most natural means of communication between the main European producer and consumer countries. Land transport is expensive in material, since wear and tear is much greater, and in manpower, since it is more difficult to load wagons than ships.
7. If the Germans had been able to import from overseas, they would not have had to plunder so thoroughly and quickly the occupied countries of Europe. Their conquest would thus have been better investments economically; e.g. they would not have had to slaughter so many Danish cattle for lack of fodder in 1940, and meat, milk and butter supplies would have been better in

¹ Internal evidence suggests that the paper was drawn up in 1942. Its purpose was presumably to provide a hand-out for journalists. There is no explanation of its provenance in the appropriate file in the Ministry's archives.

1941. Further, if supplies of raw material had been unlimited, German industries would have derived much more substantial help from the manufacturing capacity of the occupied countries.
8. The plundering of Europe (due to the lack of imports from overseas) has also created or intensified Germany's manpower problems, since more administrative personnel is needed now to squeeze the last drop out of the occupied countries, which are naturally hostile. If these countries had not been so thoroughly plundered, they would be much less hostile to Germany, collaboration might have been a reality, and the Germans would have been spared much administrative, police and garrison work.
 9. If Germany had free access to neutral countries overseas, she would have enough foreign exchange to carry on a pre-emption policy against us, and to buy up supplies which are necessary to our own and U.S. defence.
 10. Finally, if there were no blockade, Germany would be free to trade with overseas countries, particularly with the countries of Latin America. Undoubtedly her commercial influence would grow, and she would use it, as she did in the Balkans, to achieve political penetration wherever possible.

The first two points in this summary recognize the problem of enemy production and Allied counter-production; the third deals—too cautiously—with the effect of the blockade on German strategy, while the fourth probably overrates the effects on civilian morale. The strain on transport and on manpower, and tensions with the populations of occupied territories, are, however, given their rightful significance in paragraphs 5 to 8. The last two points recognize the value of the blockade in checking the German counter-blockade and German political influence outside Europe. Undoubtedly the most important result of the blockade was the automatic and almost complete severance of Germany's contacts with the overseas market, a severance which was achieved in the first weeks of war and which continued to the end. Of the remaining links, that through Vladivostok ended in June 1941 and through Marseilles in November 1942. After November 1939 her export trade was also prohibited, and had been reduced by 80 per cent. of its normal value within a few months. These deprivations were so much taken for granted that they tended to be forgotten by those who speculated as to the value of the blockade. But they reduced her annual oil supplies by more than half (4,400,000 tons came from non-European sources in 1938), and she lost, among other imports from non-European sources, 84.9 per cent. of her supply of manganese, 96 per cent. of molybdenum, 92.2 per cent. of tungsten, 85 per cent. of nickel, 76.6 per cent. of copper, and so on.¹ In this case the direct effect of the blockade can be recognized and statistically expressed.

¹ E.B., i, 32-3.

For the rest, however, the Ministry of Economic Warfare was busy throughout the war with a wide range of activities which could not be so directly and immediately related to Germany's economic fortunes. This was particularly the case with its long-term negotiations with the European neutrals, and explains the recurrent criticisms and honest doubts of those who thought it could do more, and those who thought it should do less: such as the critics in Washington who thought that by the middle of the war the Ministry had fallen into a routine in dealing with the neutrals and were not sufficiently ruthless, and on the other hand the British and American diplomatists in some European embassies who at times believed that blockade regulations caused neutral resentment out of all proportion to their value. It also explains the persistence of those champions of economic-warfare operations who looked throughout the war for decisive results through more or less isolated or individual operations against the enemy. Even the experts were from time to time attracted by these hopes of discovering the 'bottleneck', 'Achilles heel', or 'panacea target' by which the entire functioning of German industry could be brought to a standstill. While the possibilities of these commando raids on German economy were never underrated the working assumption of the Ministry of Economic Warfare was that the campaign must be one of attrition; 'if Germany be no Achilles with a single vital spot she is vulnerable and can be bled to death if dealt sufficient wounds'.¹ Analogies with military operations were, indeed, misleading rather than helpful. There was no one economic campaign or main objective, but a systematic attempt to harass German economy wherever possible.

However, the temptation to hope for, and even to promise, quick successes was no doubt a strong one at times. The Ministry never lost a certain reputation for over-optimism. This was partly its own fault, but it was also due to a widespread and exaggerated belief in the possibilities of a blockade of Germany for which the Ministry was certainly not responsible—it existed long before the war. There is not much point at this stage in trying to trace its origins. It was due to a partly mistaken estimate of the achievements of the blockade in the first World War, and to the fact that German economy had many weaknesses in the thirties, precariously balanced as it was after the world economic crisis which had done so much to bring Hitler to power. Both considerations seemed significant to Mr. Neville

¹ E.B., i, 47. The position was stated in more formal language in the official definitions of 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', etc. (*ibid.*, i, 1). These statements, however, while they rejected the hope of short-cut solutions, gave no explicit recognition to the attrition of the enemy's resources in battle as the most important means of lowering his economic strength. Although the importance of this factor was obvious enough the Ministry fell into the dangerous practice of speaking as if 'economic warfare' (i.e. the activities for which it was directly responsible) would suffice to bleed the enemy to death.

Chamberlain, who took a personal share in the work of the E.P.G. (Economic Pressure on Germany) Committee from July 1937 onwards;¹ doubtless this distinguished patronage encouraged the economic-warfare planners, whose approach to the problem was, however, a rather different one. Whereas Mr. Chamberlain and other members of the Cabinet seemed mainly conscious of German economic weaknesses, the Industrial Intelligence Centre was basing its hopes on the strength of new weapons of attack. Of course, the two were inter-dependent; defence and attack are relative terms. All the same, the politicians rather than the economic or military strategists were the panacea-mongers in the first months of the war. The best example was the belief that the intervention in Norway in the first months of 1940 would paralyse German iron ore supplies and with it her whole war effort.² The Ministry of Economic Warfare, on the other hand, was telling itself at this time that Germany had no single vital spot and could be struck down only if dealt sufficient wounds. It believed that it could lay its hands on a multiplicity of weapons for this purpose.

The Ministry never lost faith in this first programme of attack, and when it appeared to be promising dramatic results it was usually on the assumption that its full range of weapons could be used. Usually, however, they could not, and it was then natural to assume that 'economic warfare' or the Ministry had failed; the truth of the matter was that 'economic warfare' was not a ready-made weapon which could be used or not at will, but a wide range of expedients—naval, aerial, financial, diplomatic, and administrative—controlled in the main by other government departments, and effectual only if the Ministry could make good its case for their employment. The Ministry's purpose and originality lay in pointing out what the effective modes of employment were. But the root cause of the misunderstanding of the Ministry's work and methods was the fact that the war turned out very differently from what had been anticipated, and it undoubtedly took the Ministry itself some time to free itself from the presuppositions of its pre-war planners.

The most striking feature of the pre-war programme had been the definition of economic warfare as a military operation; this conception of a fourth service, comparable to that of the three existing Services in its offensive spirit, proceeded from the assumption 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. This meant that, in addition to the full employment of the legislative and diplomatic weapons through the control of contraband and the persuasion of neutrals, there would be attack from the

¹ E.B., i, 14.

² *Ibid.*, p. 45.

air behind the enemy's lines on his centres of storage, production, manufacture, or distribution, and there were a great many plans, some of them highly imaginative in their boldness, for sabotage. But very little of this programme could be applied when the war began. In the opening phase of the war, when both sides were content to suspend land operations until the spring of 1940, when each of the four neutral great powers was displaying some measure of opposition to the blockade, and when other British Government departments wished to make food, shipping, and other agreements with the adjacent neutrals, it was impossible for the Ministry to secure from these neutrals more than the recognition of the principles of 'normal trade' and of the non-export of contraband goods imported through the Allied controls. Forcible rationing could not be applied either as a means of limiting stocks or of reducing exports of indigenous products beyond 'normal' amounts. There was no bombing of German industrial targets. Pre-emption was on a very limited scale, for the Treasury was chary at first of eating into its resources of foreign exchange. No more than a cautious start could be made with the control of enemy exports. The one solid achievement was the setting up, in the minimum available time, of a thorough-going system of contraband control on traditional (1914-18) lines. In this case the range of the Ministry's activities was wide enough, and it carried out its prescribed tasks with vigour and success. If one thought of the work in terms of its permitted objectives or administrative context there could be only one criticism: it did not appear to have made the slightest difference to the enemy's ability to wage triumphant war. The Ministry's officials did not draw from this the depressing conclusion that the blockade was a waste of effort, although there were some suggestions to this effect in the press and Parliament. Rather, they were reinforced in their conviction that the economic weapons would be deadly as soon as they could be ruthlessly applied, with a full onslaught by air bombing on Germany industry and transport, and with the application of the full machinery of control to the neutrals.¹

In short, in the crisis of the war in the summer of 1940 the Ministry did not offer a new plan but was mainly concerned to press for the full execution as soon as possible of its pre-war programme with direct attack—primarily air attack—on German transport and industry as probably the most important feature. There was no reluctance on the part of the Government, or, subject to their other commitments, of the Service Departments, to try to execute this programme; 'blockade and bombing' played a leading part in the grand strategy of the next two years, and throughout the war it continued to be

¹ This programme is graphically described by Mr. Hugh Dalton, *Memoirs, 1931-1945: The Fateful Years* (London, 1957), p. 348 and chaps. XXIV and XXV generally.

assumed that they would play an appreciable part in 'softening up' the enemy. But in fact, as we have seen, the most characteristic achievements in the economic war for the next three years lay in a remarkable development of the contraband-control system, based on control at source and pre-emption, with American help. It was only in the last two years of the war that it at last became possible to combine the blockade effectively with direct attack; in other words, that it was at last possible to carry out the full programme of economic warfare which the pre-war planners had devised and which had still been the Ministry's aim in the summer of 1940.¹

The circumstances of this major shift in economic-warfare policy after the fall of France go far to account for some of the misunderstandings about the Ministry's policy and outlook.

In the first place, the Ministry's experts still shared in May and June 1940 the general belief in the accuracy and destructive power of the bomber, and this was probably the main cause of some over-optimistic forecasts. It was perfectly correct in saying that if by air attack the bombers could destroy the Rumanian oil wells and Germany's synthetic oil plants, disorganize transport, and otherwise aggravate adverse internal conditions, Germany's economy would be severely hit. But in fact the air attack did not acquire the necessary combination of weight and precision until 1944, when it was at last able to achieve the major devastations of precise economic objectives which had been presupposed in the Ministry's original planning.

In the second place, however, the change in emphasis from economic warfare to economic blockade was facilitated by the remarkable success of the new devices for control at source, and this was all the more gratifying because the Royal Navy was also unable to play the part presupposed by the plans of the Ministry's representatives in the summer of 1940. These plans had included diplomatic and naval action to close the two big leaks in the blockade—from Soviet Russia and French North Africa to Germany—and the prevention of the use of waterways round Europe (particularly the Mediterranean) and the Danube for German supply.² Here too, however, the weapons of persuasion (by diplomacy) and prevention (by naval interception) were inadequate, and the Royal Navy could not even undertake the work of interception and search of neutral shipping in the Atlantic except intermittently. But the new measures for control at source, with compulsory navicerting, ship warrants, forcible rationing, and the rest, were a compensation for many disappointments elsewhere; they meant that the main business of a sea blockade—the prevention of the passage of bulk supplies from overseas sources

¹ Cf. J. R. M. Butler, *Grand Strategy, II*, 209-17.

² E.B., i, 420.

to the enemy—was being done well, and by pre-emption and the power to regulate imports a start could be made in reducing the supplying of the enemy by his adjacent neutral neighbours.

All this led to an increasing complexity of negotiation and planning; it absorbed the attention of the Ministry's officials and drew them ever more closely into cooperation with their American colleagues, and across the Atlantic the concept of economic hemisphere defence was applied with ever-increasing ingenuity and enthusiasm. The Ministry could be justifiably proud of its considerable successes, although it was never so sanguine about the success of the Allied economic-warfare policies as the Americans, who in 1942 and 1943 undoubtedly overrated the threat to withhold supplies as a bargaining weapon. The Ministry's rather more cautious and perhaps jaundiced view of things was due partly, it may be, to national temperament, but mainly to its more intimate and detailed memory of the difficulties of arrangements with the neutrals earlier in the war (when the prospects were rather brighter than in 1941 and 1942) and its gradual recognition of the fact (which by the end of 1942 could no longer be ignored) that it had underrated Germany's economic strength.

Nevertheless the continued effectiveness of the economic blockade during these middle years of the war was in favourable contrast with the indifferent success of the various modes of attack on the enemy behind his lines; the amount of damage that could be inflicted on Germany's economy through the blockade alone could never be decisive, but it was equally the case that the advantage that would result to Germany from the collapse of the blockade was always substantial. This the Anglo-American blockade, stubbornly, meticulously, almost pedantically at times, prevented. There were two essential tasks: to bring to the highest degree of efficiency all the complicated administrative machinery for preventing the re-export to the enemy of goods imported by the adjacent neutrals; and to prevent the partial or complete absorption of the adjacent neutrals in the German economic system. The first of these tasks was always within the Ministry's powers throughout the war, and with American help was carried out with an actual increase of mastery and efficiency after the fall of France. Although this—the blockade in the more traditional and familiar sense of the word—was left almost completely, by agreement with the United States Government, to the Ministry of Economic Warfare, it aroused growing American interest, and there were criticisms and suggestions from the Board of Economic Warfare, and at times from some of the United States missions in Latin America. The earlier criticism generally turned out to have little substance, being usually based on hearsay evidence or imperfect understanding of the navicert system and the Ministry's

agreements with the adjacent neutral states. Later there were proposals for more frequent interception of shipping from South American ports to the Iberian peninsula, but as the United States Navy could never spare the time or the interest to help with the work of interception it was not usually possible to do more than was already being done by the Royal Navy along with its many other tasks. Sir Samuel Hoare, the British ambassador in Madrid, was also opposed to more frequent interceptions in the later stages of the war. Thus there could be no final certainty that a trickle of smuggled goods was not reaching Germany. But with this reservation, it can be said that the control of contraband from overseas to Europe after 1942 was complete.

The second task was more formidable. Ultimately the whole campaign was successful. But during 1941 and 1942, with German power at its height, the neutrals had all departed in some measure from the principle of normal trade in favour of the Axis, and it was hardly possible for the Ministry to do more than make a great fuss as a warning against further concessions. So it protested vigorously at Swedish, Swiss, Portuguese, and other concessions to the Axis, and where it could make an effective reply, as in the case of Switzerland, did so; it was quite prepared, in spite of American doubts on the point, to restrict supplies as a means of counter-pressure. It was, however, convinced that the extreme measures advocated in the summer of 1942 by the United States War and Navy Departments and the B.E.W. would defeat their purpose by driving the adjacent neutrals more completely into dependence on German economy. Of course, 1942 was by no means a year of unqualified German victory; the mere fact that Russia and the United States were now belligerents and that the available world supplies outside Europe were now officially earmarked for the Allied armaments production meant that there was at least a fair possibility of ultimate Allied victory; the Russian counter-attack after December 1941 strengthened this possibility. But the military balance did not begin to tilt against the Axis until the very end of 1942; in the meantime the Allies could do little more than prevent a further neutral drift into German arms. It was only in the last phase of the war (1943-5), and with the growing probability of Allied victory, that the Ministry, in association with its American colleagues, was able to launch a really successful offensive against the German sources of supply in the adjacent neutral states. Progress was still limited in 1943; Swedish and Swiss concessions were substantial, but it was not until the spring and summer of 1944 that the final successes—Turkish chrome, Swedish ball-bearings, Spanish and Portuguese wolfram—were achieved.

But by this stage the other modes of assault on German economic strength were being employed with results even more weighty and

direct than the cutting off of neutral supplies. Since the beginning of 1942 Germany had been faced with recurrent shortages as she threw greater and greater masses of equipment and finished munitions into battle, and she had met these losses with greater but ever more desperate increases in output as she strove to keep pace with the production resources of her opponents. In this war of attrition and counter-production she had certainly been hampered by the cutting down of her supplies from abroad, but she had been much more severely harassed by the loss of time, equipment, and manpower resulting from the mass attacks on German cities in 1943, by the precision attacks on her fuel supplies and transport system in the second half of 1944, and of course by her vast losses on the field of battle. When Speer was asked at his trial when he had regarded the war as lost he replied that from the armaments point of view he had not done so until the autumn of 1944; up to that time Germany had succeeded in maintaining a constant rise in production, in spite of the fact that it would have been 30 per cent. higher but for the bombing attacks. But all these attempts had been fruitless, since from 12th May 1944 on Germany's fuel plants became the target for concentrated attack from the air; 90 per cent. of her fuel had been lost from that time on. He also remarked that the bombing of German transport centres had eliminated the Ruhr as a source of raw materials by November 1944. Thus in the last phase of the war the full range of economic weapons was at last being used with the deadly effect that the early economic-warfare planners had postulated; and the German fuel disaster had proved that there was after all an Achilles heel. But it had been struck by the bomber and not by the blockade.

The broad record of Allied economic-warfare policy shows therefore that while the pre-war plans were formidable on paper they could be fully carried out only when the Allies possessed a qualitative and quantitative superiority in armaments which would ensure victory by more direct methods in the field. Even without victory in the field an air superiority so overwhelming as to put German transport and industry out of action would have either ended the war abruptly or at least deprived the blockade of most of its purpose. But the various modes of direct attack on German economy did not become overwhelming until the second half of 1944, and the importance and proportions of the blockade were directly due to the relative failure of these other means of sapping the enemy's economic power in the middle years of the war. It was an improved Maginot line which encircled the economy of the Axis powers, and by placing permanent limits on their resources and expansion achieved the

primary aim of containment, the essential purpose of any good defensive strategy.

It had also, to an extent which was not perhaps fully appreciated in Allied circles, the incidental effect of creating an encirclement mentality which had a profound influence on German psychology and political leadership. Evidence of this can be traced to many fields—even to some that were apparently remote from that of war-time economics. The German cry for *Lebensraum* was a confession of vulnerability to economic pressure, and clearly incompatible with Hitler's frequent proclamation of Germany's immunity from its effects. It was mainly on economic grounds that he had, in the secret policy discussions before the war, justified the decision to fight at the earliest opportunity and to rely on skilful diplomacy and *Blitzkrieg* strategy to achieve inexpensive victories. As the Hossbach memorandum shows, he rejected 'armament in depth' because even under peacetime conditions of rearmament Germany would be at a disadvantage by 1943 or 1944.¹ He recognized the limited value of plans for autarchy, and insisted on the need for living space in the 'East', although he appears to have been thinking only in terms of food supply. We probably have a better statement of his unsystematic and partly contradictory ideas in the Schmundt minutes of 23rd May 1939.² On this occasion he spoke of the possibility of a fifteen years' war, although 'everybody's Armed Forces and/or Government must strive for a short war'. But the preoccupation with supplies was again made clear. 'Once the Army in cooperation with the Luftwaffe and the Fleet has taken the most important positions, industrial production will cease to flow into the bottomless Danaid cask of the Army's battles but will be available for the benefit of the Luftwaffe and the Fleet.' *Lebensraum* was again referred to in terms of food supply.

It is not Danzig that is at stake. For us it is a matter of expanding our living space in the East and making food supplies secure and also solving the problem of the Baltic States. Food supplies can only be obtained from thinly populated areas. Over and above fertility, the thorough German cultivation will tremendously increase the produce.

No other openings can be seen in Europe.

Colonies: A warning against gifts of colonial possessions. This is no solution of the food problem. Blockade!

If fate forces us into a showdown with the West it is good to possess a largish area in the East. In war time we shall be even less able to rely on record harvests than in peace time.

There is no doubt that Hitler's more conscious and rational aim

¹ E.B., i, 28; *Documents on German Foreign Policy, 1918-1945* (H.M.S.O., 1949), Ser. D, vol. i, No. 19.

² *Ibid.*, vol. iv, No. 433.

in starting the war was to secure 'living space', in the first instance in Poland, in order to free Germany from the permanent potential threat of a food blockade, and this search for self-sufficiency was to lead to more and more comprehensive, and finally more and more desperate, attacks on neighbouring states. In assessing the influence of the blockade it is difficult to know at every point what was the precise bearing on the higher German strategy of these fears of economic strangulation, but there is no doubt as to their influence, either singly or in combination with other objectives, at every stage. Even with much greater stockpiling than had been possible before September 1939 Germany could not have conducted a major war with only the resources of the Reich itself. Ludendorff, in a passage of his war memoirs that was often quoted, had pointed out how greatly Germany's war effort in the first World War had depended on the resources of the occupied territories for both manpower and raw materials.¹ This preoccupation was not inconsistent with the comparatively easy-going armament effort of 1939-42; the precarious character of Germany's supply position as a result of the blockade was very much in Hitler's mind, but confidence in the ability of the Wehrmacht to win quick and inexpensive victories persuaded him that Germany could seize what she wanted, and when she wanted it, from neighbouring countries. Already in the spring of 1940 measures had had to be taken to eliminate the Allied threat to the two vital raw material sources, iron ore and oil, in adjacent neutral territory. The first was ensured by the occupation of Norway and the consequent isolation of Sweden in April 1940; the second by the complete elimination of British influence from Rumania, which had been achieved by November. The brilliant victories of 1940, with their abundant winnings in the form both of stocks and of mineral resources such as the Luxembourg and Lorraine ore fields, gave further assurance, without lessening the conviction after the battle of Britain that Germany would have to smash Russia and secure control of its economic wealth quickly if she was to accumulate the resources for a final assault on England. For while, as Hitler had hoped, the quick victories in France had reduced for the time being the flow into the Army's 'bottomless Danaid cask' and led him to postpone the re-organization of the armaments industry, they had not given Germany either the *Lebensraum* which was to be her permanent reward for victory or the immunity from blockade which was her more immediate objective.

Economic tensions in the winter of 1940-1 did much to establish the conviction that Russia could neither be relied on nor ignored. Molotov's persistent interest in Hitler's Balkan plans in November 1940, at a moment when Germany was tightening her grip on

¹ General Ludendorff, *My War Memories, 1914-1918* (London, 1919), i, 328-50.

Rumania, was no doubt ominous, and it was already becoming probable that the Soviet-German trade agreement, which Schnurre had hoped would nullify the blockade, would not function much longer to Germany's advantage. We have seen that the time-lag in the German deliveries to Russia under the Soviet-German economic agreement of February 1940 had enabled Germany during 1940 and the first months of 1941 to gain the greater advantage from the exchanges;¹ but the periodical balancing up of deliveries on which the Soviet Government insisted would have reversed this position after August 1941, and even if the full deliveries of grain had been continued they would not have removed the German Government's apprehensions about the food situation. Germany started the war in 1939 with a substantial grain reserve of about 7 million metric tons. A year later it was known that this reserve would be used up in the current crop year. Remembering the 2.5 million tons which Russia was pledged to deliver, Schurre was alarmed at a recent directive by Goering to avoid deliveries which would help the Russian war effort; Russia had already supplied a million tons of grain, and was the only neighbouring country with a good grain harvest. Goering, however, had apparently already accepted the view of Herbert Backe, who was to become the Reich Under-Secretary for Food and Agriculture in 1942, that the grain-producing areas of the Soviet Union, under German direction, really could supply all Germany's food deficiencies.² Later Backe estimated the possible annual grain yield to the Reich at 7 million tons, a grossly exaggerated estimate which if realized would have far outweighed the maximum possible gains under the economic agreement with Russia of February 1940. Hitler talked more wildly of an annual increase of 10 or 12 million tons, or even of a 50 per cent. increase in output, as practicable.³ Thus the fear of the loss of Russian food supplies, and the hope that conquest would secure a much greater yield, gave a double motive for attack; the same is true of mineral oils.⁴

It was always the contention of the experts in the Ministry of Economic Warfare that Germany's conquests would not be an un-mixed blessing for her; she would have to apply her economic and administrative methods in areas where little or no preparation had

¹ E.B., i, 642.

² *N.S. Relations*, pp. 199-201; Brandt, *op. cit.*, pp. 57-8. Herbert Backe, *Um die Nahrungsfreiheit Europas, Weltwirtschaft oder Grossraum* (Leipzig: Goldmann, 1942), states the case for a European *Lebensraumgemeinschaft* to free Germany from the dangers of blockade (pp. 11-21, 82-94, and Part IV).

³ It will be recalled that the total Soviet deliveries of cereals, pulses, and cattle cake to Germany under the agreement were 1,808,200 metric tons, according to Soviet figures (E.B., i, 658). Hitler said in August 1943 that Backe had always been very conservative in his estimates (*Fuehrer Conferences*, 21st August 1943). Cf. *Hitler's Table Talk* (ed. H. R. Trevor-Roper) (London, 1953), p. 683.

⁴ Cf. Brandt, *op. cit.*, pp. 644-7. The attack had, however, been decided on in principle, and primarily for strategic reasons, by Hitler in July 1940.

been made for their operation, and amidst hostile or uncooperative populations. There would need to be occupying troops, an additional strain on transport, and the dilemma of either feeding and supplying the occupied peoples and so diminishing her own resources, or starving and neglecting them with the consequent dangers of revolt, sabotage, or obstruction.¹ The balance of advantage seemed overwhelmingly in her favour in 1940, but undoubtedly she made her problems worse for herself by confusing the immediate short-term aim of getting as much as possible out of the occupied territories with the least trouble and the long-term aim of destroying the elements of local life which would interfere with her post-war and permanent *Lebensraum*. Before the war the countries of south-eastern Europe had been assigned an important place in her foreign trade on the basis of the exchange of primary products with German industrial goods; and it was expected that Rumania, the most important agricultural country in the group, would make a substantial contribution to German food supplies in the event of war. The result was disappointing, as it had been in the first World War; but the Reich Government's main concern was with Rumanian oil, zinc, copper, and pyrites, and as it was not easy to secure even these materials in satisfying quantities it was content to look for food supplies elsewhere.² In the Ukraine, on the other hand, where expediency obviously dictated a conciliatory and cooperative attitude towards the local agricultural population during the war years, the intended post-war pattern of ruthless Germanization was at once applied, as it had been in the Reichsgaue of Danzig-West and Wartheland.

This was also a consequence of the earlier and typical Nazi combination of economic uncertainty and military-political over-confidence. A rapid and complete military victory over the Soviet forces was taken for granted. On the other hand the threat of the blockade was thought to necessitate the diversion of the whole exportable surplus of the black-soil region to German Europe. Millions of Russians west and north of the rich southern surplus region must therefore be left to die of starvation. 'They undermine Germany's ability to hold out in the war and to withstand the blockade,' wrote the authors of a Directive on Economic Policy of 23rd May 1941. 'There must be absolute clarity on this point.'³ There seems little doubt

¹ E.B., i, 419-20.

² Rumanian food exports to Germany, in thousand tons, were as follows: 746 (1939-40); 383 (1940-1); 78 (1941-2); 18 (1942-3); 130 (1943-4). E. Woermann, *Schaubilder zur Deutschen und Europäischen Ernährungswirtschaft* (Berlin, 1944), quoted Brandt, *op. cit.*, p. 230.

³ Document 126-EC, 23rd May 1941, Nur.T., XXXVI, p. 145. This directive, in the form of a report by the Economic Staff East, Group Agriculture, gives a detailed analysis of Russian resources. Cf. A. Dallin, *German Rule in Russia, 1941-1945* (London, 1957), p. 311.

that there was a genuine chance that the Germans, if they had put themselves forward skilfully as liberators, would have had the passive and even the enthusiastic collaboration of the Ukrainian population. But as victory seemed imminent there was no point in promising the land to the peasants; the new German rulers would naturally wish for the greatest degree of state control. Backe said that if Soviet collective farms had not existed, Germany would have had to invent them. This and the extraordinary brutality and callousness of the first six months or so of the German occupation, leading to starvation and even cannibalism among prisoners of war, had defeated any chance of collaboration by the beginning of 1942.¹ By March 1942, when Hitler's glorious visions of permanent invincibility were beginning to fade for the first time before the prolonged success of the Russian counter-offensive, Speer was already rubbing in the folly of alienating and starving the populations that might be made to work for the Reich. An attempt to repair the damage by the *Agrarergloss* of 26th February 1942 was a case of too little and too late; it annulled all Soviet decrees and regulations relating to the collective farms, but for practical purposes kept the peasant under the same degree of state (and in this case enemy) control. There is a curious report in the minutes of a discussion on 22nd March, in which in a long argument Hitler stated his agreement with Speer's objection to the bad feeding of the Russian civilians. 'The Russians must have absolutely sufficient nourishment, and Sauckel must make arrangements with Backe that the feeding is assured. The Fuehrer is astonished that the civilian Russians behind the barbed wire are treated as prisoners of war.'² He was even more astonished when Speer reminded him (which he denied) that the situation had arisen as the result of an order which he (Hitler) had issued.³ Speer continued to struggle throughout the war with this problem of the adequate exploitation of the occupied countries and peoples. By May 1942 he had persuaded Hitler that 250,000 Russians could do the work of 350,000 Italians; and Hitler agreed that the Italians should be replaced, because their performance had greatly fallen off, and that the Russians must have the same rations as the Italians.³ A year later, however, Speer had to decide that owing to the unsafe conditions no armament factories should be evacuated to the Government General, which would otherwise have been a most suitable place for them. A discussion followed about the blame for this situation, and Hitler was unwilling to admit that it was due to the behaviour of Frank, the Governor-General; he thought that the real cause was

¹ Dallin, *ibid.*, p. 322; John A. Armstrong, *Ukrainian Nationalism, 1939-1945* (Columbia U.P., 1955), pp. 118-19. Cf. Rosenberg's speech 'to those most closely concerned with the eastern problem', 20th June 1941: Doc. 1058-PS, Nur.T. XXVI.

² Speer (Hamburg) Documents, 22nd March 1942; Dallin, pp. 334-5.

³ *Ibid.*, 8th May 1942.

the smaller number of officials and police on the one hand, and the excessive withdrawals of foodstuffs on the other. 'When I expressed my definite opinion that Frank is an idiot, the Fuehrer answered that with those insufficient means at his disposal any man could be driven crazy.'¹ In June 1944 it was found that every month 30,000 or 40,000 escaped workers or prisoners of war from all industries in Germany were being recaptured by the police and then put to work in the interests of the S.S. in concentration camps. Speer had to insist that they must be sent back to their original jobs; he could not carry on with an annual wastage of 500,000 workers.²

In general then it can be said that fear of the consequences of blockade played a part in drawing Germany into the Russian adventure and the two-front war which ultimately proved so disastrous for her; perhaps one could say that in this sense the fear of blockade may have been more important than the blockade itself in bringing her to ultimate defeat. To the basic German blunder of the attack on Russia we can add some of the broader strategical mistakes of the high German command; there were a number of points at which the pursuit of economic objectives must have drastically weakened the chances of German victory, particularly in the two summer campaigns of 1941 and 1942 when Hitler still had the initiative. Without pushing this argument too far (for clearly many decisions were dictated from an early stage by the Russian deployment of forces and by the brutal attempts of Hitler or his more fanatical associates to exploit a victory which had not yet been won), it can be said that the mishandling of the Ukrainian situation, the diversion of forces from the main Stalingrad field to seize the Caucasian oil wells in 1942, and later the attempt to hold on to Nikopol manganese and other sources of supply were major examples of the subordination of strategical to economic objectives. The need for victory in Russia to free Germany from the menace of the blockade was stated bluntly by Admiral Raeder in the Fuehrer Conference of 26th August 1942. The war situation, he said, continued to be determined by two factors:

1. It is urgently necessary to defeat Russia and thus create a *Lebensraum* which is blockade-proof and easy to defend. Thus we could continue to fight for years.
2. The fight against the Anglo-Saxon sea powers will decide both the length and the outcome of the war, and could bring England and America to the point of discussing peace terms.

Hitler is said to have agreed explicitly with these two points.³

¹ Speer (Hamburg) Documents, 1st June 1942.

² *Ibid.*, 8th June 1944 (conferences on 3rd-5th June).

³ *Fuehrer Conferences, 1942*, p. 98, 26th August 1942. Fourteen months later (1943, p. 142), on 27th October 1943, at a meeting attended by Hitler, Doenitz, and others, Goering

Apart from these broader and in a sense indirect effects of the blockade on German strategy and psychology there were, of course, many directions in which the German war effort was directly hampered by shortages that the blockade had created. We know that by the summer of 1944 German economy was on the verge of decline both absolutely and relative to the mounting Allied output. This really means that 'economic warfare' measures had fulfilled their purpose, if we take this to be the weakening of the enemy's production for war purposes to an extent which would give the Allied forces the advantage in equipment and resources at the decisive moment. At this point it will be useful to examine the position of certain wartime commodities.

First, foodstuffs. The German Government's handling of the food situation was something of a puzzle to the Allies throughout the war, and the Ministry of Economic Warfare does not appear at any point to have expected decisive results from the food blockade. The pre-war planners believed that the Germans had, partly for propagandist reasons, mis-stated the problem in connexion with the first World War, and that the German Government had the means of feeding its population in time of war, although on an unattractive diet. The object of the food blockade was not to starve the enemy into direct physical and moral collapse but to secure the consequential and indirect results to the Allied war effort of a German self-sufficiency programme—such as the diversion of manpower to the land ('food equals manpower'), and the diversion of fats from the munitions industry. It was assumed that the German Government would make the unpalatable choice carefully, balancing better diet and a better morale against a bigger labour force or munition output, and that the result, whatever it was, would be of appreciable but not decisive value to the Allied war effort. The Germans, however, gave numerous signs of uneasiness about the food situation which again suggests that they were to some extent the victims of their own propaganda about the 1914-18 blockade, and both prestige and internal morale necessitated repeated assertions of their invulnerability. One curious example of this was the almost indignant denial by German broadcasters after the fall of France, and on later occasions, that any part of Europe under the New Order was in need of relief.¹ These statements must be regarded primarily as attempts to reassure the German people about food supplies, for they certainly do not imply that the German Government viewed the situation so complacently. The rather panicky German respect for the blockade

called attention to the great agricultural importance of the Ukraine, urging strongly that the area be held. Hitler himself said that the loss of the Crimea would greatly endanger the Rumanian oilfields (Brassey, pp. 288, 370-2).

¹ E.B., i, 552.

was seen in the belief, after the occupation of Denmark, that Danish agriculture would soon develop into a liability in view of the cutting off of foreign supplies for livestock. The German authorities hurriedly made plans for drastic reductions of hog production, the dairy herd, and poultry, in order to conserve grain for human consumption. The prompt opposition of the Danish farmers to this slaughtering policy led to its abandonment, and in fact the alternative policy of price control and export targets was so successful as to lead to an increase of Danish output above the pre-war level.¹ The savagery and short-sightedness of the starvation of military prisoners and civilian populations in Russia was also due, in part at least, to the desire to reserve as much as possible of the grain collection for German use, on the principle that if anyone went short it would not be the Germans. After refusing food supplies for occupied Greece, Goering on 24th November 1941 told Ciano, 'with the most absolute indifference', that the Russians were eating each other and had also eaten a German sentry in a prison camp.²

The question indeed is whether the Germans exaggerated, and the Allies underrated, the gravity of the food situation. The United States Strategic Bombing Survey remarks that 'on the basis of all available evidence, it must be concluded that Germany was remarkably successful in maintaining food supplies', and that 'the supply of food was better maintained than that of other civilian goods during the war'. It is admitted, however, that as the war continued the German diet became increasingly vegetarian.³ By June 1943 the meat ration for normal consumers had been reduced by 50 per cent., in spite of the very strong livestock position that the German Government had built up by 1939. For the war as a whole the total domestic consumption of meat declined by 37 per cent., and this meant a decline of 58 per cent. for the civilian population to allow larger shares for the Wehrmacht. Meat supplies were also reduced to allow a greater proportion of the total field crop to be used directly for human consumption. The maintenance of the potato supply affected the meat situation through the cutting down of fodder potatoes for hogs. Fats and oils were the most serious bottleneck, for in peacetime Germany depended on imports for over 40 per cent. of her needs, and even before the war there were shortages; at the beginning of the war the civilian fat ration was put at about 66 per cent. of the pre-war level. The attempt to remedy this shortage by blockade running in 1943 failed. After further reductions during the war it stood at

¹ Brandt, *op. cit.*, pp. 300-3.

² Ciano, p. 411.

³ U.S.S.B.S., pp. 132, 133. There is a full summary of information about food supply, based on interrogations, in *Food and Agriculture during the War*, Special Paper No. 4, Overall Economic Effects Division, U.S. Strategic Bombing Survey. Gordon and Dangerfield, *The Hidden Weapon*, pp. 196, 205, give too favourable a picture.

about 43 per cent. of the pre-war position in January 1945. Thus the general position, in so far as it was favourable, was due to the maintenance of the grain ration. But the statement of the position in terms of these overall figures and percentages to a considerable extent falsifies the picture, for it conceals the dependence of Germany's wartime economy on the transitory advantage of imports from occupied territories; when these precarious and extensive supplies were cut off during the last year of the war Germany at once faced a very grave situation.

The significance of the contribution from occupied territory can be shown statistically in the table below. In a normal pre-war year Germany's domestic grain output was approximately 25,000,000 tons; some 3,800,000 tons or about 13·2 per cent. were imported. The war years showed first a drop (7·8 per cent., 1939-40), then a steady increase of imports (mainly from occupied territories) to 31·2 per cent. in 1940-1, 15·6 per cent. in 1941-2, and so to the two peak years of 1942-3 and 1943-4, when the imports were 21·7 and 19·3 per cent. respectively. After the loss of Russian and other supplies from occupied territory the percentage of imported grain fell to 5·5 per cent. in 1944-5.¹ The more detailed figures, according to German import statistics, are as follows.²

German grain imports from occupied territories 1939-44

Imports from	(in 1,000 metric tons)				
	1939-40	1940-1	1941-2	1942-3	1943-4
France		1,150	945	1,400	1,300
Belgium		30	37	51	40
Holland		21	41	27	20
Protectorate	53	125	26	188	182
Slovakia	129	10	3	5	
Russia	497	1,115	1,841	2,910	1,800
Hungary	317	55	236	120	375
Yugoslavia	189	46	195	118	
Rumania	610	371	53		100
Bulgaria	108	49	7	32	
Poland	1	55	51	633	459

These figures include the amounts consumed by the Wehrmacht in the countries concerned. The Wehrmacht lived as far as possible on the occupied territories, and the throwing of millions of troops on to the food resources of these countries represented a substantial addition to the food supplies of the Reich which can be estimated

¹ The domestic German grain crop for the war years was as follows (in thousand tons): 27,489 (1939-40), 23,947 (1940-1), 23,895 (1941-2), 23,263 (1942-3), 25,328 (1943-4), 22,645 (1944-5).

² These figures, based on the German import statistics, are from Emil Woermann, *Schaubilder zur Deutschen und Europäischen Ernährungswirtschaft* (Berlin, 1944), supplemented by figures from unpublished German sources in Brandt, *op. cit.*, pp. 610, etc. Brandt estimates that the relatively small imports from the Danube Basin yielded enough to cover German grain exports to Norway, Finland, Belgium, Bohemia-Moravia, Italy, and Greece, leaving a net balance of 1·2 million tons available to Germany during this five-year period.

with fair accuracy. The wholesale starvation of Russian prisoners must not be forgotten. As far as Soviet territory is concerned the following German figures have survived from the papers of the German agricultural administration in Russia(ZO):¹

Soviet grain contribution to Germany 17th July 1941–31st March 1944
(in 1,000 metric tons)

	To Reich	To Wehrmacht in Russia	To German civil administra- tion in Russia	Total
Feed grain . . .	972·3	1,828·3	1,334·9	4,135·5
Bread grain . . .	788·5	2,221·7	2,006·2	5,016·4
TOTAL	<u>1,760·8</u>	<u>4,050·0</u>	<u>3,341·1</u>	<u>9,151·9</u>

The figures in the first of these two tables do not include the total of 3,341,100 tons of grain delivered to the German civilian administrative agencies and the German-employed indigenous population.² Broadly, however, the position is clear enough. The Reich received just over 9,000,000 tons of Soviet grain during an occupation of just under three years; this represented about 10 per cent. of the total German supplies from all sources during this period. We must also note the large imports (including Wehrmacht consumption) of grain from France (excluding the departments of Pas-de-Calais and Nord) between 1940 and 1944; the total of about 4,800,000 tons is remarkably large even by comparison with the yield from Russia.

Germany also received substantial supplies of food fats and meat from the occupied territories. Imports of fats from Denmark and Norway were heavy in 1939–40 and 1940–1; with the use of these surpluses German imports represented 26·2 and 23·5 per cent. of her total supplies of food fats in these two years. There was a drop to 17·7 per cent. in 1941–2, but then in 1942–3 there were large supplies from Russia bringing the percentage up to 25·9. With the loss of Soviet territory the percentage fell to 14·0 in 1943–4 and to only 5·3 in 1944–5.

The Reich also received heavy imports of meat from Denmark (768,000 tons), France (758,000 tons), and Russia (731,000 tons); in the three years 1941–2, 1942–3, and 1943–4, imports represented 23·3, 29·0, and 26·7 per cent. respectively of Germany's total meat

¹ In data from Reports of the Zentral-Handelsgesellschaft Ost für Landwirtschaftlichen Absatz und Bedarf, m.b.H. (ZO), the principal monopoly corporation entrusted with agricultural production and trade in the Soviet area; see Brandt, *op. cit.*, p. 129.

² It will be seen also that there is a considerable difference between the total figures in the two tables for the other two items. Brandt (p. 128) points out that the division between the three claimants in the final ZO report probably does not represent the true distribution, because much of what the German occupation agencies received was processed by them for the Wehrmacht, and the Reich similarly exported 600,000 tons of grain from the occupied Soviet territories in various forms to the Wehrmacht in Russia. These points are exhaustively analysed in Brandt's authoritative study. For our purpose it is the overall figures that matter.

supplies, as compared with 7·8 per cent. in a normal pre-war year.¹

Thus while the German Government was able, during the greater part of the war, to maintain a reasonable food standard for the population of the Reich and the more favoured of the occupied areas, and to give the Wehrmacht preferential treatment, it did so by temporary and desperate expedients which entailed corresponding dangers and ultimate disaster. Germany had not escaped from the blockade; she had merely extended the blockade area by trying to seize the resources of a neighbour who proved too strong for her.

The same is true, although perhaps not to the same extent, of oil. Here too decisive advantages were expected from the attack on Russia. In the Soviet-German agreement of 11th February 1940 Germany had been promised 900,000 tons of mineral oil, and in fact she received, according to the Russian figures, 1,014,300 tons up to the time of her attack on Russia in June 1941. But this amount was too small and too dependent on Soviet goodwill to solve Germany's permanent oil problem. It does not appear that the German authorities felt any immediate apprehension about oil supplies until the end of 1941; the fighting in 1939 and 1940 had been inexpensive, and supplies were adequate for the three-months' campaign which was expected to be sufficient to crush the Soviet forces in the autumn of 1941. Yet there were many grounds for uneasiness. The following rough balance sheet for aviation spirit, motor gasoline, and diesel oil presented by a German expert, Professor Krauch, to the Generalrat in June 1941, shows that 44 per cent. of her supplies in 1940 had been derived from imports or captured stocks.

German oil supplies (aviation, motor, and diesel) 1940
(in million tons)

<i>Supply</i>		<i>Consumption</i>	
Domestic production	. . . 3·5	Armed forces	. . . 3·1
Imports: Rumania	. . . 0·8	Industrial and civil	. . . 2·4
Russia	. . . 0·6	Occupied territories	. . . 0·1
Sundry	. . . 0·2	Balance added to stocks	. . . 0·3
Captured oil	. . . 0·8		
	<u>5·9</u>		<u>5·9</u>

The improvement in the stock position at the end of 1940 was due to the windfall which came to the Germans through the capture of stocks in the occupied territories. We have seen that in the first nine months of the war the British Government had made efforts to prevent the accumulation of large oil reserves in the adjacent neutral countries, but these countries had preferred to lay in large stocks wherever possible as a precaution against shortage later in the war. France also had large stocks. Estimates vary, but it appears that the quantity of oil captured may have been as much as 2,000,000 tons.

¹ Brandt, *op. cit.*, pp. 610-14.

Some of the surplus was used by the German forces in the actual course of operations. Nearly half a million tons were allocated to the French occupation authorities, and there were similar allocations to maintain the civil economy of other occupied areas. The failure to destroy these stocks had important consequences. It was this welcome addition that eased the German oil position so usefully in the winter of 1940-1; without it the civil economies of the occupied countries could not have been maintained, or the attack on Russia launched in June 1941.¹ But so favourable a gain was not likely to be secured again, except in Russia; after June 1940 the tighter British blockade, with the compulsory rationing of the remaining European neutrals, left little prospect of substantial loot. In short, the 1940 oil loot made the early invasion of Russia possible, but was also a reminder that it was necessary.

There is no evidence that the German failure to force a final decision in Russia in 1941 was due to any shortage of oil supplies, or that the capture of oil wells was an immediate objective of German strategy in the 1941 campaign. On the contrary, supplies had been used lavishly, in anticipation of decisive results; but as this had depleted Germany's limited stocks by nearly a million tons it was evident that future campaigning on this basis could not be prolonged. In the circumstances, when the 1942 offensive against the Russian forces was planned, the capture of the oilfields of Maikop and Baku became a major objective. The interrogations of some of the German generals in 1945 revealed differences of opinion as to whether the drive for the Caucasus was due primarily to the need to secure the oilfields for German use or to deny them to the Russians,² and it may well be that the sense of urgency varied with the individual and his confidence that the 1942 campaign would be decisive. But the British War Cabinet rightly concluded on 22nd December 1941 that the enemy's oil situation was now critical. Certainly the Germans wanted large Russian oil supplies urgently. In February 1941 Goering had ordered that oil production should be given every priority and that the previously planned production for 1942 should be increased by 25 per cent., a goal which production officials regarded as impossible owing to the shortage of steel and labour; nevertheless, after the beginning of the Russian war the production programme was again revised to provide for a production of 2.4 million tons of aviation spirit by the end of 1942 with a

¹ The accumulation of the necessary reserves from the supplies otherwise available to Germany would probably have delayed the attack on Russia until the spring of 1942.

² Milch took the first view; Jodl and Koller the second. Ruhrsart thought that the primary aim was to divert Russian troops to the south in order to facilitate an eventual assault on Moscow; nevertheless oil supplies would have had to be captured in Russia itself to bring the war to a satisfactory conclusion, so that the seizure of the Caucasian oilfields was an essential part of the general strategy. Cf. p. 680 below.

maximum of 3.6 million tons by the end of 1943. This target was never reached; the experts could only say that, to attain it, aviation spirit would have to be given first priority and 1½ million tons of Russian oil would have to be made available after the spring of 1942. Elaborate preparations were made to exploit the Caucasus oilfields; a specially trained and equipped task force followed the spearhead of the advancing German forces charged to rehabilitate 'scorched' oilfields promptly. Seventy-five drilling rigs had been manufactured in Germany to exploit the Maikop field, which was expected to produce 250,000 tons in the first year of German occupation.

In the event, Germany gained almost nothing from these Russian oilfields; the Caucasus drive was thrown back, and technical delays, demolitions, and guerilla attacks prevented almost all advantage from the Maikop field.¹ Here again therefore the Russian gamble, which would have added abundant oil to abundant grain if it had succeeded, left a dreadful weakness when it failed. That oil shortage did not end the war in a few months after the turn of the tide early in 1943 was due to improvements, in the nick of time, in synthetic production in central Europe, and particularly to the coming into operation of the plant at Breux in Czechoslovakia. Although synthetic production did not reach the 1942 targets there was a sufficient increase in output, from 200,000 a month at the beginning to 260,000 tons at the end of the year, to turn the dangerous corner,² and this was assisted by a drastic reduction of supplies to the civilian economy of Axis Europe.³ After this the continued expansion of the synthetic oil industry enabled Germany to face the increasing demands of the war until the spring of 1944.

The position of grain and oil illustrates the basic paradox of German war economy in the first three years of the war. It lies in the apparent mixture of apprehension and complacency; while fear of the blockade was a factor in the risky attack on Russia, the opportunity was not taken to widen the industrial base of Germany's armament industry, or to make the transition to 'armament in depth'. The result was that when, during 1943 and 1944, the war became one of attrition in the field not only of manpower but also of weapons, machines, and munitions, all that was possible was an intensification of 'armaments in width'; and if the success of Speer in squeezing the existing economy surprised even himself the result

¹ A small and unimportant output was secured from Romni, in the Ukraine.

² It was reported at a meeting of the *Zentrale Planung* in October 1942 that all Wehrmacht reserves of motor gasoline were exhausted.

³ From 8,000,000 in 1941 to 5.2 millions in 1942.

could only be a temporary keeping of pace with Allied production. By 1944 the point had been reached when further expansion of armament production became impossible in terms of materials and manpower; nothing more could have been expected of the economy even if it had been spared the effects of loss of territory and industrial bombing. The collapse of war material production began in August 1944, and was of course accelerated by these direct losses and attacks, but the fundamental fact in the economic war was that Germany was out-produced by her neighbours.

We have traced the course of the Speer's activities in earlier chapters.¹ The Ministry of Economic Warfare knew a good deal about his claims and achievements, without ever, it would seem, being quite able to fit them into its general picture of German economic development as a whole. This was due primarily, however, to its failure to see the developments of 1943 and 1944 against the background of Germany's relatively low production effort in the earlier part of the war; it did not lead to any slackening of Allied effort. It was natural to suspect propagandist exaggerations. On the whole the effect was to cause the Ministry to redouble its plans for a knock-out blow to German war production; the campaign against the alloying materials as the essential factor in German steel production was the final version of this attack.

Speer's achievement, the 'armaments miracle' as he liked to call it, was a triumph of rationalization and reorganization which enabled Germany to keep pace for a time with the mounting production of her opponents, but it was carried out at a cost, and there was never a sufficiency of steel or manpower to expand adequately the industrial base of the armaments industry. Against the expanding production for the Army must be set the relative starvation of air and naval armaments. When Hitler, prompted by Speer, took stock in March 1942 after the first great setback in Russia he agreed that priority must be given to the armaments industry and other industries working for the army; iron must not be spared in respect of munitions; the existing powder and explosives basis must be utilized to the fullest extent, so that a decline similar to that which had taken place in the previous December, January, and February would not occur again.² In a speech in June 1944, Speer was able to say that 'with the help of Dr. Goebbels, we have fixed the meaning of the word "armament" so deeply into the people that really today, armament in the sense of 1942 appears insignificant'.³ The Navy on the other hand evidently felt that it was on the seamy side of these developments. There are constant complaints of shortages, which were never

¹ Chaps. I and XIII above.

² Speer (Hamburg) Documents, 16th, 22nd March 1942.

³ *Ibid.*, vol. 89.

fully remedied. To Raeder's complaint in March 1942 that the navy construction programme was seriously hampered by raw material shortages, Hitler replied unhelpfully that the armed forces set their requirements too high. Raeder claimed that the number of new submarines, which had originally been set at 24 to 25 a month as an urgent naval requirement, had sunk to 18 for the present. Moreover, owing to recent drastic reductions in oil shipments from Rumania, both the German and Italian navies had had temporarily to abandon completely any operations of heavy units using fuel oil.¹ In December 1942 Raeder again told Hitler that some of his orders for naval construction would have to be delayed, others cancelled altogether, for the first quarter of 1943, owing to raw material shortages. Hitler could only say that he had also had to reduce greatly his quotas of other branches of the armed forces.² When Doenitz replaced Raeder he took up the same complaints with vigour. At a conference with Hitler on 11th April 1943 he argued that it was a matter of life and death for Germany to maintain her supply lines and foreign trade: Hitler agreed completely, but retorted, 'the problem remains: where can the steel be obtained?' He could order the required amounts to be made available, but only by reducing the vital needs of other arms. It was left that Doenitz was to discuss with Speer the possibility of increasing steel production from 2.6 to 4 million tons a month, but Hitler recognized that this could only be done by a considerable allocation of steel for the construction of new facilities such as blast furnaces.³

This was an admission of lost opportunities, for the time was too short for a basic extension of industrial plant which ought to have been carried out, if at all, before the war. Doenitz made the best of a bad job by giving Speer responsibility for naval armaments, and at a very late date, on 1st August 1944, Speer took over air armaments as well.⁴ There was thus a good case for the decision of the Ministry to launch its attack on the German steel industry. We have seen that Lord Selborne's programme in December 1943 was based on three assumptions: that Germany was drawing heavily on her reserves of machines and weapons, that she was more dependent than ever upon fresh supplies of raw materials, and that the shortage of these was impeding her war effort already. The Ministry recognized that although the overall crude steel output was likely to fall in 1944, production at a probable figure of some 25,000,000 tons a year would still exceed the pre-war total. It argued, however, that a

¹ *Fuehrer Conferences 1942*, pp. 20, 43, 14th March, 16th April 1942 (Brassey, pp. 267, 274).

² *Ibid.*, 1942, p. 139, 22nd December 1942 (Brassey, p. 304).

³ *Ibid.*, 1942, pp. 20-2, 21st April 1943 (Brassey, p. 317).

⁴ Cf. Speer's own comments on these changes at his trial on 16th June 1946: Nur.T., XVI, 436.

disproportionately large output of common steel would be of very little use; for the special steels needed for armaments and the engineering and chemical industries the alloying materials were vital, and it was in the power of the Allies to cut off practically all these supplies in the near future.¹

While these arguments were valid, the success of the ferro-alloy campaign came too late to have any major bearing on the course of the war. The point of decline in both the qualitative and quantitative output of steel would have arrived when stocks, no longer replenished from abroad, were exhausted; but before this point was reached, bombing, the loss of territory, and wastage of material in battle provided more rapid and wholesale causes of collapse. It is nevertheless important in assessing the blockade to remind ourselves how precarious in this sense the German economy was, and how dependent on supplies from neighbouring territory. Although additions to stocks exceeded withdrawals in most of the light, non-ferrous, and ferro-alloy metals during the war (1940-4) the sources of supplies had largely been cut off by 1944 and the stocks were being used up more rapidly than they could be replaced. The general stock position in the case of certain of these metals is shown in the following table.²

Ferro-alloy and non-ferrous metals in Greater Germany 1940-4
(in 1,000 metric tons)

	Stocks 1939	Supply 1940-4	Consumption 1940-4	Variation in stocks
Manganese	197.1	476.9	584.9	-108.0
Chrome	56.3	159.4	198.1	-38.7
Wolfram	5.0	7.1	13.8	-6.7
Molybdenum	3.2	2.6	7.7	-5.1
Nickel	9.2	46.5	47.7	-1.2
Vanadium	0.8	8.2	7.0	+1.2
Titanium	?	32.3	30.7	+1.6
Antimony	2.5	10.6	10.8	-0.2
Cobalt	1.0	1.4	1.5	-0.1
Tin	7.0	57.2	44.9	+12.3
Lead	190.0	1,215.0	1,156.0	+59.0
Zinc	283.0	2,054.0	1,939.0	+115.0
Copper	183.0	1,531.0	1,342.0	+189.0

The figures in the last column show the difference between those in the preceding columns. They indicate the extent to which Germany had been unable over the main course of the war to meet her con-

¹ See p. 410 above.

² Based on Appendix Table 83, in U.S.S.B.S., pp. 263-4, which is in turn derived from *Monatliche Rohstoffübersichten* (Statistisches Reichsamt), *Statistische Schnellberichte zur Kriegsproduktion* (Hauptabteilung Planstatistik, Planungsamt, Reichsministerium für Rüstungs- und Kriegsproduktion), and other sources.

sumption needs from current supplies. The deficiency had had to be met from reserve stocks, the extent of which can be approximately indicated by the figures in the first column, although these are not likely to be complete. It will be seen that these were not extensive even in 1939, and that stocks were added to during the war only in the cases of copper, zinc, lead, tin, vanadium, and titanium. The supply figures for 1940 to 1944 included, in addition to imports from neutral countries, captured stocks and mining output from occupied areas. By the summer of 1944 Germany had been deprived of any fresh accretions from these sources, and was left with her quite inadequate domestic production and the fast dwindling reserves. The position of the light metals, magnesium and aluminium, was similar.¹

The German production of tool-steels provides one example among many of the progressive growth of ferro-alloy shortages. The manufacture of metallic articles and components by pressing and forming operations such as sheet-rolling, wire and tube drawing, extrusion, die-pressing and drop-forging, as distinct from cutting operations, calls for the use of tools of extremely varied character ranging from small punches weighing a fraction of an ounce to rolling mills of upwards of a hundred tons. In the first case the whole tool is composed of tool-steel, in the second only such working parts as rolls, guides, and dies. The performance efficiency and indeed the life of such tools depends on the quality of the materials of which they are composed. Three separate decrees were issued, the first as early as March 1940, to ensure economy in the use of ferro-alloys in their production. The decree of March 1940 laid down the maximum permissible contents of nickel, molybdenum, and wolfram for tools in seventeen classes of cold- and hot-working operations. The object of the decree was evidently to economize in the use of the three metals, rather than to attempt any kind of standardization of material for individual operations. The second decree, in June 1942, added chromium and vanadium to the list. No less than 131 applications were now detailed, involving 58 different alloy specifications. Even alloys with as low a chromium content as 0.3 per cent. were incorporated. In June 1944 a third decree, reflecting the ever-diminishing supplies of ferro-alloys, covered as many as 226 separate applications, and permissible alloy contents were laid down for 58 different varieties of alloy-steel. The most notable features of the decree were a general reduction of chromium content and the elimination of nickel from several types which had previously carried more than

¹ Wagenführ, *op. cit.*, pp. 52-4; a table on p. 54 gives figures of the *Planungsamt* for imports from Sweden (iron ore and cellulose), Portugal (tin, wolfram), Spain (wolfram), and Turkey (chrome), for 1942, 1943, and 1944. Cf. Appendix I below, and also Appendix III 'Raw Material Production, 1943, Enemy and Occupied Territory'.

3½ per cent. of nickel; the use of the higher tungsten-bearing steels was curtailed, and vanadium contents were reduced almost to half of the 1942 values. In several chrome steels, the difference between one alloy and the next in the series was only 0·1 per cent. Such refinements were difficult to secure in practice; but the supply position was now so acute that the attempt had to be made to save chromium at any cost. The addition of manganese to the list of restricted elements was highly significant: it meant that, as in the case of chromium, supplies were now so short that economies had to be made even in the comparatively small tonnages of steel needed for tool production. But the wide and detailed range of specifications, which were intended to ensure further economies by matching the tool material more precisely to the job, must have led to a vast increase in tool holding at industrial plants (unless there was an extensive evasion of the imperative instructions of the Reich authorities). In turn this wholesale extension of tool-steel types accorded ill with the practice of the aircraft engine industry; at the Augsburg factory of Messerschmitt, to take one example, alloy-steels had been reduced by May 1943 to seven types.¹

Such cases show clearly the strain on the diminishing supplies needed for the production of quality steel. Even in the case of crude steel, however, the heavy drop in imports would have had disastrous effects in due course. German figures show the total steel production of Greater Germany and the occupied countries as 31,819,000 tons in 1941, 32,126,000 in 1942, 34,644,000 in 1943, and still 28,501,000 in 1944. The quarterly figures for 1944 show, however, a rapid drop in output: 9,192,000; 8,421,000; 6,928,000; and then only 3,960,000 in the last quarter. Germany's imports of iron ore fell from a total of 20,241,000 tons in 1943 to 6,540,000 tons in 1944. Whereas in 1943 imports from Sweden had been 10,262,000 tons, and from France 7,902,000 tons, in 1944 Swedish exports fell to 4,500,000 tons, and imports from all other countries including France were only 2,040,000 tons. In 1945 of course there were no Swedish imports. But while it is obvious that the cutting off of vital imports would have had a fatal effect on both the quality and quantity of iron and steel production if the war had continued only a little longer, it is unlikely that these shortages played a major part in Germany's defeat. There are a number of reasons for this. Iron and steel take a considerable time after leaving the producing works to appear in the form of armaments and other finished products: much of the German equipment in use at the end of 1944 must have been made from iron and steel produced in 1943 or at the latest the early months of 1944. Thus the drop in crude steel output for the second half of 1944 would

¹ These particulars are from an M.E.W. Intelligence report of 15th February 1945, based on a recent capture of German documents.

not be likely to produce a serious drop in the production of war material for some months, perhaps not until the second half of 1945. Apart from this time-lag there were other ways in which the immediate impact of the drop in steel output could be minimized. Even under modern conditions of mechanized warfare a high proportion of steel is used only indirectly to support the war effort: such steel consumers as the railways, building, mining, and general engineering could, at least as a temporary measure, be curtailed to keep up the supply of armaments. These adjustments were certainly made, and stricter allocations helped further to eke out the diminishing supplies for some time. Quality production could also be maintained for some time by ingenuities in the use and economy of the non-ferrous and ferro-alloy metals. The substitution of one metal for another and limited reductions in alloy content did indeed enable the capable German engineers to keep up an adequate quality standard, but the situation was always difficult and the field for such technical manoeuvres was becoming very narrow by the second half of 1944.

The justification for the considerable Allied effort in economic warfare was, then, that throughout the war it deprived Germany of a margin of economic strength that might at a number of points have ensured victory, while towards the end it helped to build up the margin of Allied strength that ensured Germany's defeat, although it did not succeed in dealing the mortal blow itself. The softening-up process was always real, although generally over-valued. More specifically the Ministry of Economic Warfare, in association with its American colleagues, had five main fields of achievement. These were (1) the drastic limitation of German imports from non-European sources, reduced after November 1942 to the small, desperate contribution of the blockade runners; (2) the creation of an encirclement neurosis with marked effect on German political and military strategy; (3) the direct hampering of the Axis armament effort by the creation of raw material shortages; (4) the indirect hampering of the Axis wartime economy by additional strains on transport and manpower; and (5) the strengthening of neutral resistance to Axis pressure by economic aid, by the constant evidence of Allied determination, and by threats of retaliation, immediate or delayed. To these can be added the many direct contributions to the Allied war economy that resulted from the existence of the British and American economic-warfare organizations—including the careful apportioning of scarce materials, the securing of vital raw materials from European neutral sources which might otherwise have all gone to Germany, and even the study of German wartime techniques (the British clothes-rationing system was based on information about

German methods made available to the Board of Trade by the Intelligence Branch of the Ministry of Economic Warfare). And without doubt the note of optimism in the Ministry's pronouncements during the darker days of the war was a useful contribution to Allied morale.

But to the British historian the broader picture is of an increasing scepticism towards the Ministry's plans and claims. It was remarked in the first volume of this work that one of the broad paradoxes of this story is that as the effectiveness of the economic weapons increased their reputation declined.¹ Sir Arthur Harris, one of the most robust critics of the economic-warfare aspirations, wrote in 1947: 'Apart from the single instance of the synthetic oil plants—and they only constituted a real bottleneck in the last year of the war—the arguments of the economic experts had invariably proved fallacious.'² The economic experts had not been wrong in saying that there were many bottlenecks besides the synthetic oil plants; the trouble before 1944 had really been that the Air Forces of the Allies were unable to strike these precise targets effectively. Criticism on these lines was, however, really an assertion that there were more directly profitable ways of using air power than the destruction of economic targets; it was a sign of the relative decline in the interest and importance of the economic-warfare weapon by comparison with the splendour of the armed forces in direct combat with the declining power of their opponents.

In the United States, however, the economic-warfare weapon seems to have retained its glamour to the last. The enthusiasts of B.E.W. felt that in their system of 'blockade outside Europe' they had a fearsome new weapon, very much as the early enthusiasts of M.E.W. had felt that they had a deadly weapon in the new technique of attack on targets behind the enemy's lines. The American belief in the efficacy of the new weapon outlasted the war, and from 1942 onwards British officials in Washington were aware that their American colleagues believed that the new techniques might be applied in peace to provide 'collective curbs or sanctions to actual or potential aggressors'.³ 'Blockade' was duly put forward in the United Nations charter as the first form of pressure to be applied to a potential aggressor. To the British student of international relations there did not seem anything particularly novel in this conception: after the first World War there had been the same attempt to apply the technique of blockade in sanctions under the League Covenant, and it did not appear that there was anything in the plans or situation of the United Nations which removed the practical difficulties of

¹ E.B., i, 43.

² Sir Arthur Harris, *Bomber Offensive* (London, 1947), p. 220.

³ Messrs. Gordon and Dangerfield sketch an extensive programme of peacetime sanctions operations on these lines (*The Hidden Weapon*, pp. 225-9).

application. One difficulty was that the mere refusal of the primary suppliers to export to an aggressor would be ineffective if he had supplied himself with adequate stocks for a campaign; another was that without an efficient economic-warfare intelligence organization, which could not be created over-night, it would be difficult, if not impossible, to know what sanctions would be likely to hit him hardest in the short time necessary for effective action; another was that without the exercise of traditional belligerent rights—the 'blockade' in the familiar sense of the term—there would be nothing to prevent the smuggler and the blockade runner from rallying to the aid of the needy aggressor.

The truth of the matter is that all these forms of international economic pressure depend for their importance on the peculiar circumstances of the blockaded power. Many may be so situated that the complicated machinery of the blockade need not be applied at all: this was the case in very large measure with Japan, an island power able to draw very little help from adjacent neutrals. After 1942 the economic isolation of Japan became almost entirely a matter of action by submarines and aircraft against supply ships trying to make the long and vulnerable passage from south-east Asia to the home islands. On the other hand a strong and self-sufficient land-power, such as the United States or Soviet Union, would be too little dependent on overseas supplies to be vulnerable. The great interest in blockade during the last forty or more years has been due to the peculiar circumstances of Germany as an aggressor power, able to develop sufficient military might to call forth the utmost exertions from her opponents, sufficiently powerful to maintain a strong war economy for a prolonged period without substantial reinforcement from overseas, but sufficiently dependent on foreign sources of supply to be vulnerable in time to a slow process of economic strangulation by her enemies. Essential also to this development of blockade is the character of the adjacent neutral screen: it must be of a medium strength and of sufficient resolution and political objectivity to hold a genuine balance between the two sides. In these circumstances the technique of blockade was developed to the fullest point of British ingenuity. But this peculiar combination of opportunity and challenge might never, perhaps, recur.

The record of British economic-warfare operations during the second World War is one of prolonged patience, ingenuity, and achievement; in the variety of expedients devised to control every movement of neutral trade the machinery of blockade was brought to its fullest elaboration; there was an appreciable contribution to victory. Whether the funding of this wartime experience will greatly aid future policy is, however, very much less easy to determine.

Appendices

APPENDIX I

Some German Imports from Sweden, Turkey, Spain, and Portugal

The figures in the tables below are taken from the official German trade returns that came into the possession of the Board of Trade at the end of the war. They show the annual imports of certain of the industrial raw materials which were of particular interest to the Ministry of Economic Warfare. For comparison some published figures from the official trade returns of the countries concerned are appended; they are interesting if only for their omissions. All figures are in metric tons.

SWEDEN

<i>Commodity</i>	<i>1939</i>	<i>1940</i>	<i>1941</i>	<i>1942</i>	<i>1943</i>	<i>Jan.-July 1944</i>
Iron ore ¹	10,038	8,898	9,260	7,975	9,550	3,378
Pyrites	36,336	19,965	36,088	15,399	25,078	21,743
Pig iron	25,476	34,837	40,109	38,991	27,723	14,056
Ferro-alloys:						
Ferro-silicon with a silicon content of 25% or less; ferro-manganese with Mn content of 50% or less; ferro-chrome, -tungsten, -titanium, -molybdenum, -vanadium, with less than 20% alloy content; ferro-aluminium, -nickel, and other non-malleable ferro-alloys of predominantly iron content	618	15	353	15	—	—
Ferro-silicon with a silicon content of more than 25%; silicon; calcium silicon	3,744	2,564	10,509	5,334	7,476	2,237
Ferro-manganese with a Mn content of more than 50%	—	5,258	1	—	—	—
Ferro-chrome, -tungsten, -molybdenum, -vanadium, with an alloy content of 20% and over	3,451	1,331	2,710	487	193	389
Copper:						
Unwrought and scrap	9,336	2,331	3,482	1,040	1,337	446
Bars, sheets, wire, etc., of copper and alloys	8	14	5	8	14	4 ²

¹ In thousand metric tons.

² Possibly understated; Sweden is not always shown.

The Swedish returns give the following details of exports to Germany:

Commodity	1939	1940	1941	1942	1943 Whole year	1944
Ferro-alloys:						
Ferro-silicon, with more than 15% silicon	3,975	5,200	9,489	6,952	9,689	4,520
Ferro-manganese-silicon with over 15% silicon	484	149	627	—	47	—
Ferro-manganese and spiegel-eisen	5	—	1	—	—	—
Ferro-tungsten	122	—	—	—	—	—
Ferro-chrome	4,041	1,199	2,430	452	13	—
Ferro-silicon with up to 15% silicon	62	—	—	—	—	—
Other sorts	83	26 ¹	49 ¹	35 ¹	45 ¹	—

¹ Ferro-molybdenum.

TURKEY

Commodity	1939	1940	1941	1942	1943	Jan.-July 1944
Sheep's wool	3,126	286	51	—	—	—
Goat hair	5,509	114	167	441	1,281	204 ²
Cotton raw and linters	4,551	—	848	915	2,469 ¹	—
Chrome ore	114,558	—	—	—	25,498	21,182
Olive oil	585	175	1,651	744	490	neg.
Vallonia	13,490	84	6,879	6,384	9,950	7,413

According to Turkish statistics the exports of the undermentioned goods to Germany during 1939-45 were:

Commodity	1939	1940	1941	1942	1943	1944	1945
Mohair greasy	4,647	—	230	88	1,139	77	—
Cotton raw	1,879	—	—	1,105	1,580	3,326	—
Chrome ore	104,156	—	—	—	13,564	59,649	—
Vallonia	8,987	—	5,006 ²	3,713	7,567 ²	4,702 ²	—
Vallonia extract	2,582	— ²	— ²	1,039	—	—	—

¹ Possibly overstated slightly.

² Recorded as 8,874 bales.

³ Not available.

SPAIN

Commodity	1939	1940	1941	1942	1943	Jan.-June 1944
Yarns of wool and other animal hair	—	—	—	—	—	—
Tissue fabrics of wool and other animal hair	—	—	50	201	241	267
Iron ore	738,006	2,827	169,743	728,319	455,575	122,544
Lead ore	—	—	111	—	4	—
Copper ore	—	—	291	—	—	—
Zinc ore	16,570	—	30,868	—	—	—
Sulphurous pyrites	582,894	27,570	35,196	—	20	—
Lead, crude, lead waste and scrap	—	231	1,713	1,554	1,719	1,451
Copper, crude, and waste	—	—	6	63	287	not shown
Zinc unworked including scrap	—	—	—	—	—	—
Tin, crude, scrap tin, tin waste	—	—	175	—	16	not shown
Mercury and mercury alloys	3	21	757	389	320	826
Olive oil	8,124	507	—	—	12	1,053
Tinplate	—	—	—	—	—	—
Chromium, cadmium, wolfram, and other base metals suitable for metal wares, crude, waste	—	—	—	—	—	—

The Spanish returns (Continental Spain) show the following exports to Germany of the main items:

Commodity	1940	1941	1942	1943	1944
Iron ore	—	117,966	127,769	162,445	105,709
Pyrites, iron	—	9,631	25,694	43,273	30,688
Lead, pig	—	735	1,447	676	4,361
Mercury	345	759	200	305	345
Wolfram ore and wolframite	29	15	44	430	323
Zinc, blende	—	31,546	18,809	22,849	10,241

There are no available Spanish trade statistics for 1939

PORTUGAL

Commodity	1939	1940	1941	1942	1943	Jan.-July 1944
Wolfram ore	638	61	1,641	1,696	1,076	—
Tin ore	—	—	1	31	—	—
Tin, crude and scrap	—	156	442	670	938	102
Hides and skins not for furriery	51	31	409	462	428	114
Resin	12,610	310	4,414	11,970	10,571	9,712
Cork raw and waste	24,456	1,886	5,306	5,438	1,900	2,192
Olive oil	—	—	—	—	—	11
Oilseeds and nuts ¹	—	—	—	—	—	not shown
Cotton raw and waste	—	—	—	—	—	—
Sisal ²	—	—	—	—	—	—
Rubber, raw (including latex), and synthetic	—	—	—	—	—	not shown
¹ Imports from Portuguese Colonies were:						
Mozambique	9,202	492	—	—	—	—
Port. W. Africa	3,871	303	1	11	—	—
² Imports from Portuguese Colonies were:						
Mozambique	4,242	148	16	44	—	—
Port. W. Africa	2,526	458	186	—	—	—

Although the German returns show only 44 metric tons of sisal imported from Portuguese Colonies in 1942, the Portuguese returns show 169 metric tons as passing in transit through Portugal to Germany in that year.

APPENDIX II

Imports into French Mediterranean Ports

January 1941–August 1942

The tables given below are derived from a statement drawn up by the Statistics Section of M.E.W., and dated 5th November 1942. They give a record of cargoes carried into French Mediterranean ports from January 1941 to August 1942. Table A gives the quantities (in metric tons) of the imports; Table B details of some of the chief commodities. The figures were stated to be minima, since they were based on reports which were not complete in all respects. As regards the total figure for 1941, it was thought that the total cargo unloaded at French Mediterranean ports probably amounted to about 5 million tons, of which over 3·8 millions have been recorded here. Generally speaking, therefore, the completeness of the 1941 figures was of the order of 75 to 80 per cent. of the total. As between different commodities, the figures for cereals, oil-seeds, phosphates, and most agricultural products appeared to be fairly complete; the omissions were probably most important in the case of live animals, wine, metals, and minerals. More complete information about the traffic became available during 1942, and the figure of 3·2 million tons cargo shown in the table as imported into French Mediterranean ports during the period January to August 1942 was believed to be reasonably accurate.

The total of 3,194,757 tons, shown as imported from January to August 1942, was distributed between the various Mediterranean ports roughly as follows:

Marseilles	1,780,000 metric tons
Sète	420,000 „ „
Port de Bouc/Caronte	670,000 „ „
Port St. Louis du Rhône	205,000 „ „
Port Vendres	90,000 „ „
Nice	25,000 „ „

It appears that all, or nearly all, French imports were then made to the account of the state, of various para-state bodies, or of French intermediaries for Germany.

The statement also contained the following notes on individual commodities:

Wheat

Recorded shipments from French North Africa after the beginning of June 1942 had reached a total of over 140,000 tons, compared with the French requirement of 200,000 to 250,000 tons out of the 1942 harvest. From June Morocco had sent 27,000 tons direct, Algeria 68,000

tons, and Tunisia 48,000 tons. A small proportion of this, shipped in June, might have come from the 1941 harvest.

Groundnuts

A further shipment of 1,332 tons groundnuts had arrived at Marseilles in October. This brought total imports into France of the new groundnut crop to over 68,000 tons, exceeding by at least 5,000 tons France's supposed share of the current crop. Since North Africa had received her full share of 18,000 tons, it would appear either that French West Africa was going short for the benefit of France or that the crop had been somewhat larger than had been supposed hitherto.

Cotton

A shipment of 4,000 tons of cotton was made from French West Africa to France in October, making a total of 9,874 tons imported into France for this year. A report had been received that only 4,000 tons of raw cotton were available for French requirements during 1942. It was therefore probable that the remainder, almost 6,000 tons, had been requisitioned by Germany.

Wool

Compared with the 1941 total of over 6,000 tons greasy wool and 1,000 tons scoured wool from French North Africa, only 1,600 tons greasy and 21 tons scoured wool had been recorded for January–August 1942. It would appear that North Africa was holding out more strongly against French demands for wool than was French West Africa in the case of cotton, each country having a considerable need of its own product.

Manganese ore

Shipments appeared to be running at a level of 3,000 tons a month. It was believed that another large shipment might have taken place in July, bringing the total imported into France from January to September to between 22,000 and 24,000 tons.

Phosphates

The figures were conjectural because only a proportion of phosphate shipments were definitely specified as such. The remainder or probable phosphate figures were made up of the total cargo unloaded from ships known to be engaged generally in the phosphate trade, although the exact nature of cargo remained unspecified for certain voyages.

Rubber

The figure for crude rubber imports during 1941 shown in the table (11,970) was the maximum figure believed to have been imported into France via Marseilles. This figure included only that part of the cargo of the *François L.D.* which was actually shipped to France during 1941 (1,770 tons out of a total cargo of 6,717 tons). The corresponding minimum figure for imports during 1941 was estimated at 10,470 tons. In both cases, the total included 1,500 tons of rubber which was reported as the amount shipped from French West Africa during 1941.

Imports during 1942 shown from French North Africa consisted chiefly of the remainder of the cargo of the *François L.D.*

Table A
Imports into French Mediterranean Ports
January 1941–August 1942
(in metric tons)

Commodity	1941 Total Imports	1942 (January–August)		
		From Algeria and Tunisia	From French Morocco	Total Imports ¹
Live animals	17,401	5,488	97	5,551
Meat and meat preparations	4,336	1,014	360	1,980
Dairy produce	11,637	151	4,302	6,437
Fish	45,241	16,508	9,016	28,145
Cereals	409,986	161,946	101,895	275,509
Fruit and vegetables	697,624	368,020	35,623	597,463
Colonial foodstuffs (coffee, pepper, spices, etc.)	85,981	1,006	2,365	32,973
Beverages (chiefly grape must, wine)	460,958	268,787	83	269,323
Animal feeding stuffs	24,906	2,543	6,255	14,871
Tobacco, crude and manufactured	3,989	3,486	—	3,487
Oil-seeds, nuts, and kernels ²	332,986	791	11,905	137,249
Animal and vegetable oils and fats	23,930	190	994	9,830
Chemical elements and compounds, pharmaceutical products ²	22,977	1,133	221	14,262
Dyeing, tanning and colouring materials	5,438	604	4,841	6,615
Essential oils, perfumery, cosmetics, etc.	352	41	393	657
Fertilizers ²	1,155,697	1,043,626	141,442	1,207,755
Rubber ²	12,402	6,894	40	9,237
Timber, cork, and paper	40,698	15,271	4,119	34,212
Hides, skins, and leather	12,526	1,945	45	2,708
Textile materials, raw or simply pre- pared	29,259	3,729	2,266	12,947
Yarns and threads, textile fabrics	32,407	17,076	3,166	24,485
Heating, lighting and power, petro- leum products	56,639	1,083	2	1,085
Non-metallic minerals and manufac- tures thereof; earths, etc.	25,970	10,482	177	11,019
Ores and metals, ferrous and non- ferrous and manufactures thereof ²	157,658	233,237	10,570	298,017
Machinery and miscellaneous	140,734	127,518	19,455	188,939
TOTAL: ALL COMMODITIES	3,811,732	2,292,529	359,632	3,194,766

¹ These figures include, in addition to those from French N. Africa, imports from Spain, Corsica, French W. Africa.

² Details in Table B.

Table B
Details of Imports of certain Commodities into French Mediterranean Ports
January 1941–August 1942
(in metric tons)

Commodity	1941 Total Imports	1942 (January–August)		
		From Algeria and Tunisia	From French Morocco	Total Imports ¹
<i>Oil-seeds, nuts, and kernels</i>				
Groundnuts, unshelled	54,788	—	—	—
Groundnuts, shelled	188,869	—	—	72,946
Copra and desiccated coconut	6,869	—	—	3,879
Palm kernels	44,660	—	—	45,242
Linseed	22,995	—	11,339	11,339
Cotton-seed	47	—	523	2,727
Castor-seed	1,202	—	—	5
Sheanuts	9,161	—	—	103
Other oil-seeds, nuts, and kernels	4,395	791	43	1,008
TOTAL	332,986	791	11,905	137,249
<i>Chemical elements and compounds, pharmaceutical products</i>				
Charcoal	12,110	56	—	12,880
Alcohol	9,221	582	—	582
Mercury	16	—	—	—
Other chemical products	1,602	494	217	790
Pharmaceutical products	28	1	4	10
TOTAL	22,977	1,133	221	14,262
<i>Fertilizers</i>				
Phosphates (probable total)	1,115,558	1,043,321	141,442	1,184,763
Superphosphates	1,510	301	—	301
Potash	38,261	—	—	22,680
Other fertilizers	368	4	—	11
TOTAL	1,155,697	1,043,626	141,442	1,207,755
<i>Rubber</i>				
Rubber (crude)	11,970	6,889	—	9,192
Rubber (waste)	286	—	40	40
Rubber manufactures	146	5	—	5
TOTAL	12,402	6,894	40	9,237
<i>Ores, metals, ferrous and non-ferrous and manufactures thereof</i>				
Iron ore	53,626	200,484	1,900	251,356
Pyrites	8,045	—	—	2,818
Manganese ore	50,551	12,580	7,866	20,446
Titanium ore	449	—	—	2,045
Molybdenum ore	10	29	—	29
Antimony ore	1,019	254	—	254
Lead ore	671	2,185	—	2,185
Zinc ore	6,615	614	800	1,414
Cobalt ore	308	—	—	—
Other ores, specified	263	—	—	—
Other ores, unspecified	11,252	13,275	—	13,275
Iron and steel manufactures	441	281	4	649
Scrap iron	10,319	1,600	—	1,600
Pig lead	13,041	1,696	—	1,696
Tin	220	225	—	225
Zinc	374	—	—	—
Other non-ferrous base metals, wrought and unwrought, including scrap	409	—	—	11
Manufactures of non-ferrous and unspecified base metals	45	14	—	14
TOTAL	157,658	233,237	10,570	298,017

¹ These figures include, in addition to those from French N. Africa, imports from Spain, Corsica, French W. Africa.

APPENDIX III

Raw Material Production, 1943— Enemy and Occupied Territory¹

(monthly average)

Raw material	Tonnage	Production in	
		Greater Germany	Occupied Territory
Coal	1,000,000	23·2	6·4
Iron pyrites	1,000	97	86
Iron ore	1,000	910	437
Crude steel	1,000	2,550	337
Primary aluminium pig	1,000	20·8	9·7
Copper, electrolytic and refined	1,000	15·6	2·1
Metallurgical soft lead	1,000	14·5	1·7
Chrome metal		2,278	357
Silicium		3,850	3,875
Nitrogen	1,000	76·7	30·5
Soda	1,000	127	35
Chlorine	1,000	40·9	5
Sulphuric acid	1,000	173	42
Caustic soda	1,000	59·2	12·5
Paper cellulose	1,000	76·1	14·2
Wood pulp	1,000	79·7	18·1
Paper	1,000	210	49
Cellular wool	1,000	26·2	10·6
Rayon	1,000	8	8·6
Flax	1,000	5·7	4·8
Hemp	1,000	0·7	0·7
Textile pulp	1,000	33·4	11·2
Heavy leather	1,000	17·4	5·0

¹ Based on figures from the Statistical Department of the *Planungsamt* of the Speer Ministry of Armaments and Munitions; R. Wagenführ, *Rise and Fall of German War Economy, 1939-1945* (1945), p. 22.

APPENDIX IV

M.E.W.: the Study of Enemy Intelligence

In the first volume of this work some account was given of the earlier development and administrative complexity of the Ministry of Economic Warfare (E.B. i, 63-70; 463-7). The basic structure was not fundamentally altered after the summer of 1941. Lord Selborne succeeded Mr. Hugh Dalton as Minister in February 1942, on the latter's appointment as President of the Board of Trade. At the same time Sir Frederick Leith-Ross, the Director-General, went to the Board of Trade, taking with him the Export Surpluses and Post-War Relief Department of M.E.W. He was succeeded as Director-General by Lord Drogheda. The Parliamentary Under-Secretary to the Ministry was Mr. Dingle Foot, who had been appointed with Mr. Dalton in 1940, and who remained in this office until the end of the war. There continued to be two broad divisions of the Ministry, one concerned with operational, the other with intelligence, matters; in the second half of the war they were known as the General and the Enemy Branches respectively. This work has been in the main an account of the activities of those who manned the General Branch, and who were engaged in the work of negotiation with neutral governments, with pre-emption, contraband control, and the like. In the second half of 1943, when the General Branch had reached its full wartime development, it was organized, under the general direction of Lord Drogheda, into seven departments. These were Enemy Transactions (including Insurance); Neutral Trade, General (American and Diamonds sections, Supplies to European Neutrals and Eire, Statistics, and Relief); Neutral Trade I (Iberian Peninsula, Shipping, and Switzerland); Neutral Trade II (Navicerts and Export Licences, Turkey, the Middle East and Sweden, and Pre-emption); Legal; Press; Establishment and Finance. The grouping of sections in the three Neutral Trade Departments was somewhat arbitrary, and was often due to the personal interest of the senior official in charge of each department. As the activities of General Branch shrank during the last eighteen months of the war, considerable further telescoping of sections became necessary, but its basic structure is indicated clearly enough by the arrangements described above.

The Enemy Branch was separately organized under Colonel C. G. (now Sir Geoffrey) Vickers, V.C., who as Deputy Director-General was second in command to Lord Drogheda. The story of Enemy Branch was one of growth and innovation throughout the war. Its energetic and resourceful staff had many striking achievements to their name, and they were successful in persuading the Service Departments to make use of the economic information that Enemy Branch could supply, instead of relying on their own Intelligence Directorates for information. This story is worth telling, and the most convenient way to do so will perhaps be to print the

following account of the work of the Enemy Branch written in 1945 by Sir Geoffrey Vickers at the request of the official historian of the Ministry.

THE DEVELOPMENT OF ENEMY BRANCH, 1941-1945

I. Introduction

I took over Enemy Branch from Professor Hall in April 1941.

External Relations. The relations of the Branch with the inter-service organization of the Chiefs of Staff, namely the Joint Intelligence Subcommittee, and the Joint Planning Staff were, as Professor N. F. Hall has said,¹ confined to himself and his deputy, and had been carried as far as they could be carried whilst limited to this personal basis. Soon after my arrival the J.I.C. decided to set up a permanent inter-departmental staff including an M.E.W. representative. This initiated continuous contact at a wider level which was essential to the development of the work. In 1942 a second and later a third inter-departmental team were added, each containing M.E.W. representation. The development of M.E.W. participation on inter-service work for the J.I.C. proceeded smoothly and satisfactorily thereafter.

In addition to the continuous work of these teams, other joint studies were made during the war under the auspices of the J.I.C., including a series of studies on German and Japanese manpower under a Subcommittee with an independent chairman from the Cabinet Office (Professor Dennison's Committee) and the continuous study of the German and Japanese oil situation made by a Subcommittee under the chairmanship of Sir Harold Hartley (the Hartley Committee). After the defeat of Germany a major study by the J.I.C. on the causes of Germany's collapse was carried out by yet another inter-service team. In all these M.E.W. played a leading part.

Professor Hall says that this development provided a more satisfactory alternative to the plan which he had proposed for drawing Service intelligence representatives into M.E.W. to work as part of that organization under the direction of an M.E.W. chairman, for which post he had obtained but not filled an establishment of P.A.S. Unhappily, this is in my view only partly true. So far as concerns the production of inter-service appreciations, the machinery of the Joint Intelligence Staff was undoubtedly excellent, and could not, I think, have been better, but it was none the less essential to the proper functioning of Enemy Branch that Service Intelligence Officers should work in it as part of it on all subjects where its work touched that of the Service Intelligence Directorates. Professor Hall's plan, which was nearly accepted, was ultimately turned down by one of the Services; and although at various times I made renewed efforts to get Service personnel posted to M.E.W. I was never successful in overcoming the establishment difficulties involved. The result was that although Enemy Branch was engaged from 1942 to 1944 almost exclusively on intelligence which the Services needed for strategic and operational planning, but which their own Intelligence Directorates were

¹ In an earlier memorandum, not printed here.

not organized to supply, we had to do the work almost entirely with civilian personnel. This imposed two serious handicaps. First it increased the difficulty of getting suitable personnel, especially in view of the fact that Service personnel by virtue of their tax-free allowances were much better paid, at all events whilst on staff appointments in London, than civilians of comparable grade. Secondly, it denied us the obvious means of bridging the gap between a civilian ministry and a Service ministry.

It is highly abnormal that the Services should go outside their own Intelligence Directorates for information and advice needed to plan operations. If we had been able to arrange an adequate degree of Service penetration into Enemy Branch, so that at least a fair proportion of those who most often met the Services were themselves Service personnel, who had worked in Service Intelligence Departments, we should have been immensely helped in knowing what was wanted, in knowing how to present it, in persuading the Services of its importance and in inducing them to rely upon it. As it was, these difficulties had to be overcome, and were to a large extent overcome, by other expedients; in particular by the personal relations established between Enemy Branch officers and their opposite numbers in the Services, and by 'bedding out' Service units and personnel in Lansdowne House. With the passage of time and the improvement in the quality of E.B. work, the habit of using it as part of the Services' intelligence machine slowly developed at least among those who had most occasion to consult it. But it remained an anomalous situation, and the relations which most strikingly developed were not with the Service Intelligence organizations, but with operational and planning branches which found in Enemy Branch services which they wanted and could not get elsewhere. The only field in which really satisfactory cooperation existed between E.B. and Service *intelligence* directorates was on the J.I.S. and in other work done under the auspices of the J.I.C.

Internal Relations. Enemy Branch, when I took it over, contained four Departments, namely:

Financial Transactions Department
Commodities Department
Shipping Department
Enemy and Occupied Territories Department

In addition the Director had attached to him, with the personal rank of Assistant Secretary, an officer who acted as his deputy on the J.I.C. Of these four departments F.T.D. was an operational department, concerned almost entirely with neutral countries, and doing work similar in character to that of the territorial departments in General Branch. Commodities Department contained specialists, whose functions increasingly overlapped those of the officers of E. & O.T., which was beginning to be organized on a functional basis. It was their function to advise General Branch on commodity questions generally. It included an Oil section which was consulted on and undertook some of the negotiations on oil questions in neutral countries, but which left enemy oil intelligence to the Oil section of E. & O.T. The Shipping Department dealt with shipping intelligence in both the enemy and the neutral countries, E. & O.T. was con-

cerned only with enemy and enemy-occupied Europe, and was organized largely on a functional basis, though it still had officers dealing with particular countries—in particular France and Italy.

These four departments seemed to me to have no organic unity, and the only explanation which I could find for their co-existence in one branch was that they included all the functions which the territorial departments of General Branch did not want. Two courses were open:

- (a) To organize these departments as complementary to the territorial departments of General Branch, so that on any problem which General Branch undertook, there would be an opposite number in Enemy Branch who should be consulted and would be in a position to give useful advice,
- or (b) to exclude so far as possible all functions bearing on neutral countries and to organize Enemy Branch as an enemy intelligence organization designed to work with the Services and to assist M.E.W. in so far as it needed intelligence about the enemy world to guide its operations.

Some months' experience convinced me that the former course was impracticable, and at the end of the year [1941] I adopted the second. As things turned out, I have no doubt that this would still have been the right decision, even if the alternative had been possible. From that time the two halves of M.E.W., which even in April 1941 were very imperfectly integrated, drifted apart and became increasingly self-contained, so that in April 1944, when Enemy Branch was administratively transferred to the Foreign Office, nobody noticed the difference.

The subsequent development of Enemy Branch was dictated to an important degree by the need to develop three kinds of specialists. Technical specialists were needed to understand the fragmentary intelligence on every branch of industry, commerce, and finance which poured into the Branch and to build up from it a continually developing appreciation of the situation in each of the important industries, commodities and economic activities, e.g. steel production, chrome supplies, price control. But the questions which the Services asked for most purposes had a strongly 'territorial' slant, e.g. 'What are the most important economic targets in *South Norway*?' 'What is the food situation in *Normandy*?' Territorial specialists were needed to put together local pictures from the material collated by the technical specialists and to collect the factual details which were needed for their purposes, but not for overall appreciations.

Experience showed that yet a third kind of specialist was also needed. Each enquirer had different needs and a different mentality. What the R.A.F. needed to know about Western Germany for bombing operations differed from the requirements of the Army when about to cross the Rhine. And each user had his own approach to his problems and had to be studied separately. A separate bridge had to be built to each before he would take what the Branch could give, or the Branch could give in acceptable form what the user needed. Specialists in 'requirements' proved even more necessary than technical or territorial specialists.

Thus as the Branch developed there appeared in it an increasing number of individuals or small sections whose task it was to keep in touch with particular users, to earn their confidence, to learn their requirements and to interpret their needs to the intelligence machine behind them. This machine again developed both along functional and along territorial lines, the former being the basic pattern of organization, but some subjects being analysed more fully on a territorial basis.

II. *April to December 1941*

The first re-organization of Enemy Branch took place in the middle of 1941 and involved three important changes:

- (a) E. & O.T. was organized on a completely functional basis, and changed its name to Enemy Resources Department. The vestiges of territorial organization within it were swept away. The three posts of Senior Technical Specialists secured by Professor Hall were utilized so as to organize the Department in three divisions, each containing its complement of Sections headed by Principals. It thus became possible for the first time to fill the establishment and organize this vital Department on something like an adequate scale.
- (b) A new department—Services' Liaison Department—was formed, the primary purpose of which was to enlarge contact with the Services, and particularly with the Chiefs of Staff organization from the personal basis on which it had hitherto been. The members of the new Joint Intelligence Staff belonged to this Department. The Far Eastern Intelligence Section, which had been set up in General Branch to study the Japanese war potential, was transferred to Enemy Branch and placed in this Department.
- (c) A Section known as Bomb Targets Section was withdrawn from E. & O.T. and transferred to the new Services' Liaison Department with a view to its subsequent development as an independent Department.

The effect of these preliminary changes was:

- (a) To put Enemy Resources Department (formerly E. & O.T.) on a footing on which they could develop as an adequate intelligence processing machine.
- (b) To make more adequate provision for dealing with the Services on strategic matters.
- (c) To separate from the intelligence machine the section which was primarily concerned with giving operational advice on bombing targets, and which ultimately grew into three Departments dealing with all operational enquiries on sea, land, and air.

This last change expressed a decision, the rightness of which was abundantly confirmed later, to segregate the staff who were to deal direct with operational planners in all Services. This segregation helped them to overcome the difficulty already referred to in building a bridge between civilian and Service organization; it assisted the preservation of security; and it enabled the officers segregated to devote themselves to under-

standing the needs, conditions, and mentality of their operational customers, an essential condition which they could not have achieved in E.R.D., particularly after it had been organized on a functional basis. The growth of this operational side within the Branch gave rise to its own problems, in that there was a continuous tendency for contact and the sense of unity to wear thin as between the operational side and the general intelligence side, but it was easier to deal with this fissiparous tendency inside the Branch, rather than between the Branch and its Service customers.

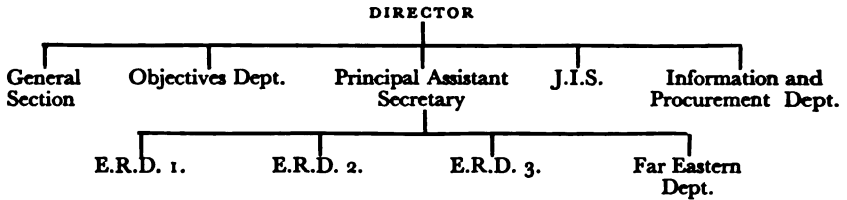
III. 1942

From the point of view of organization the conspicuous feature of 1942 was that at the beginning of the year the decision already referred to was taken and put into effect to convert Enemy Branch into a purely intelligence organization. In consequence:

- (a) Commodities Department was abolished, part being absorbed by General Branch into the section which ultimately became the Relief Department, and the greater part being absorbed by E.R.D. which undertook responsibility for giving technical advice on commodity questions outside as well as inside the enemy world, a function which they were seldom required to exercise.
- (b) The responsibilities of Shipping Department were limited to the enemy world, part of its personnel being transferred to General Branch, of which the territorial departments undertook responsibility for their respective countries.
- (c) Somewhat later Financial Transactions Department was transferred bodily to General Branch.
- (d) On the other hand Information and Procurement Department was transferred from General Branch to Enemy Branch, except for its statistical section. This Department contained three sections, one of which—Black List—served the General Branch exclusively, whilst the other two—Censorship and Statistics—served both General Branch and Enemy Branch. (The reduced Department remained a slightly anomalous part of E.B. until 1944, when Black List was transferred to General Branch, part of Statistics was absorbed in the new Post Hostilities Department (E.A.B. 1) and Censorship was grouped with other information-procuring functions in a new Department (E.A.B. 10). The long delay in this digressive process was largely due to personalities.)

Later in the year E.R.D. split into three separate Departments; the Far Eastern Section was promoted to be a Department. The four Departments were placed under one official, for whom a new post of P.A.S. was created. This created a machine for collating and appreciating economic intelligence about both enemy worlds on a supradepartmental basis under the whole-time supervision of a single head responsible to me. The old Bomb Damage Section also became a Department, and enabled the operational side of the work to grow correspondingly. The members of the Joint Intelligence Staff continued to report to me; and Services' Liaison Department, having served its purpose, disappeared.

Thus by the end of 1942 Enemy Branch had assumed the shape shown on the following chart, a shape which it was broadly to retain until 1944.



The general intelligence machine with its four Departments digested intelligence coming to it from all sources and serviced J.I.S. for the purpose of inter-service appreciations, and Objectives Department for operational purposes. Objectives Department had already begun to build up the staff and records needed to answer operational demands, which usually had a local character, and to establish the necessary liaison with Air Operations staff to be followed later by corresponding links with Naval and Army operational Staffs.

The principal features of the work during this period were as follows:

(1) *Development of J.I.C.* With the entry into the war of the United States and the establishment of the Combined Chiefs of Staff in Washington, it became essential to provide machinery in Washington whereby strategic appreciations agreed by both British and American Intelligence Directorates could be presented to the Combined Chiefs of Staff. This was difficult, because at that time practically the whole of the intelligence machine and experience as regards the German war was in London. It was rendered more difficult because the American Service Departments were not accustomed, as ours were, to cooperating with each other, let alone with other countries. Furthermore the Service Intelligence Representatives in Washington were naturally of lower rank than the American Directors of Intelligence. After negotiations between British and American Service Intelligence Directorates, arrangements were made for the Americans to establish a Joint Intelligence Committee, including civilian representatives of the State Department and other bodies, as well as Service representatives; and for a combined Intelligence Committee to be created at which the American J.I.C. would meet the British intelligence officers. It was further arranged that the chairman and spokesman of the British J.I.C. in Washington should be provided by M.E.W.

(2) *Development of the General Intelligence Machine.* E.R.D.'s expansion into three Departments made it possible to undertake both more ambitious and more coordinated analyses of economic intelligence about Germany. This was highly necessary, because demands were increasing in volume and in importance both for strategic and for operational purposes. The J.I.C. was continuously evaluating economic factors in considering such questions as whether the Germans were likely to invade Turkey, whether the oil shortage was likely to modify their strategy (as in fact it did in 1942 by prompting them to drive southwards into the Caucasus as well as driving to Stalingrad).

On the operational side the Air Force was beginning to gain strength,

the American Eighth Air Force was beginning to arrive in the latter part of the year, and the evaluation of the relative merits of different industries as targets for attack was becoming increasingly important. These developments required not only an increase in the size of the general intelligence coordinating machine, but also closer cooperation between its various sections. This was achieved by a weekly meeting, to which all the technical sections provided a summary of the more important current intelligence. This was put together in an agenda and discussed round the table, so that the differences of views between sections could be reconciled, and the significance of important items could be fully appreciated. U.S. representatives attended these meetings.

These developments made it essential to have machinery for producing collated views which took into account many different economic factors. This was the task of the third of the new departments into which E.R.D. had split. It was responsible for general subjects such as finance, manpower, and trade, under an official who produced general appreciations involving the cooperation of all three departments, and played a very important part in increasing the contribution of the E.R.D. departments to the J.I.C.

(3) *Russia*. A most important development of the period was intelligence about Russia. As the battle moved to and fro, the Chiefs of Staff showed the liveliest interest in its effect on the war resources of the Germans and the Russians respectively. Enemy Branch possessed a fairly strong Russian Section, containing a number of Russian speakers, and was very well provided with Russian books of reference, maps, and plans. The largest single E.B. contribution to the J.I.C. during the period was probably the successive appreciations by this Section of the effect of the war on the Eastern Front on German and Russian potential.

(4) *Air operations*. The Air Force attained for the first time during this period the capacity for fairly heavy and sustained night bombing, whilst during the later part of the period the American Eighth Air Force began to build up. There was consequently an increased demand for appreciations about the relative merits of different German industries as targets for attack. At the beginning of the period these appreciations were still prepared to a certain extent in competition by a section of Air Intelligence and by Enemy Branch. By the end of the period Air Intelligence had ceased to make independent industrial appreciations. Thereafter, by a tacit agreement, the field was virtually divided between the two, Air Intelligence being primarily responsible for certain fields, particularly aircraft production, whilst M.E.W. was responsible for the remainder. The Operations Directorate of the Air Ministry drew direct on both. This development was largely due to the personal relations established between the responsible M.E.W. official and the Director of Bombing Operations.

The advent of the American Air Forces complicated the problem of cooperation, since they also required economic advice. They were less ready to take it from their own civilian agencies, but ultimately did so, though they usually gave Air Force commissions to the men on whom they proposed to rely. The advent of the Americans also raised acutely a controversy between the relative merits of the sort of precision bombing

which the Americans were equipped to do by day and the kind of area bombing which the R.A.F. was learning to do by night.

The three functions of economic intelligence in connexion with bombing became clear during the period, namely appreciation leading to selection of targets; detailed intelligence for the planning operations; and the assessment of war damage. As has already been explained, Enemy Branch was accepted by B. Ops. as the principal provider of appreciations leading to target selection except in a few fields. As regards detailed intelligence for planning, an admirable machine was built up during this period as a result of the Air Ministry locating its target section in Lansdowne House. This section had access to Enemy Branch records, and drew on Enemy Branch for detailed information about the location and use of factories. It was responsible for preparing the target maps and dossiers actually used by the operating forces.

As regards bomb damage, the period saw considerable development in cooperation between M.E.W. and Combined Interpretation Unit (C.I.U.) an inter-Service (but largely Air) organization responsible for the interpretation of air photographs. Cooperation between C.I.U. and Enemy Branch was never perfect, and was always liable to be disturbed by overlapping; and on the whole the assessment of bomb damage was, I think, less satisfactory than the other two fields of Air cooperation. The proper function of Enemy Branch was in the later stages of analysis, i.e., translating into terms of 'effect on war effort' the physical damage estimated from photographs by C.I.U. The evidence for these later stages of appreciation was scanty and Enemy Branch never succeeded in evolving adequate statistical or other techniques for dealing with this problem.

(5) *Cooperation with the Americans.* During 1942 the American organization, which was successively known as B.E.W., O.E.W., and F.E.A., sent representatives to London to work with Enemy Branch; so did their more independent rivals the Office of Strategic Services (O.S.S.). The American Embassy established at 40, Berkeley Square, a separate department known as the Economic Warfare Department under Mr. Riefler, in which all personnel concerned with either General Branch or Enemy Branch of M.E.W. was supposed to be combined in a single team. Though they never became perfectly integrated, the organization was successful in enabling the Americans to get the full benefit of what we were doing, and to a less extent to assist us with their own work.

Throughout this period a major difficulty in all fields was to establish sufficient common agreement on facts and views to make Anglo-American cooperation possible. The Americans were very keen and deployed great resources, but had, of course, less experience and far fewer sources of information.

(6) *Developments in the Mediterranean.* In the early part of 1942 we were asked to provide a section in the Mediterranean area. An official was appointed to the Staff of the Minister of State, Cairo, and in due course built up a team which in 1943 was to be amalgamated with the American team under the name of Combined Economic Warfare Agencies (C.E.W.A.). During 1942 it was entirely British and was largely concerned with guiding the collection of economic material and intelligence

in the Middle East, and contributing economic advice on the Middle East to the J.I.C.

(7) *Land Operations.* With the planning of the North African landing there developed for the first time a demand for coordinated intelligence about a large area which the Allies intended to occupy. The demand was a double one—intelligence for operations and intelligence for occupation—and each of these demanded a large economic contribution.

Planners of the actual operation needed information about food and fuel stocks, road-making material, mechanical repair facilities, cold-storage facilities, labour, as well as more topographical information about beaches, harbours, and roads. Planners of the occupation needed a far wider range of economic information to assist them in planning the control of administration, imports and exports, labour and price control. These demands were destined to grow even greater throughout the rest of the war until they became the dominant task of the Branch.

There existed an inter-Service organization known as the Inter-Services Topographical Department whose function it was to supply topographical information for *operations*. Its terms of reference included the 'resources' of each theatre of operations, and thus substantially overlapped the field of Enemy Branch. By arrangement with this body Enemy Branch supplied the greater part of these 'resources' surveys, sometimes to I.S.T.D. for inclusion in its reports (which were known as ISIS reports) and sometimes direct. A third section of the Joint Intelligence Staff which was formed during this period (known as I.S.(O)) helped to co-ordinate the demands for operational intelligence for the ever wider operations which were being planned from this period onward.

(8) *Far East.* Owing partly to the profound differences between Germany and Japan and partly to the fact that the Far Eastern war—and consequently its demands for intelligence—began later than the European war, the provision of economic intelligence on the Far East remained throughout a separately organized function; and the Far Eastern Department, which was largely staffed with experts on Far Eastern countries, did not draw on the rest of the Branch except on oil. Strategic appreciations on the Far East were made by the same J.I.S. which appreciated the Western war, but on Far Eastern matters the M.E.W. representative looked for briefing to the Far Eastern Department alone.

After six months' work as a section of General Branch the Far Eastern team was transferred to Enemy Branch when the Far Eastern war began, and was soon expanded into a Department. At the beginning of 1942 it had the urgent and unexpected task of advising on 'what to scorch' in the British territories which were successively overrun—a task for which it was qualified by being responsible for appreciating what the Japanese were likely to want most.

Apart from intelligence on 'scorching' the principal task of the Far Eastern Department was to estimate Japan's economic fighting strength and endurance and the effect on it of her conquests—a task of the greatest difficulty for most sources of current intelligence in the West were absent or negligible in the East, and even pre-war information about Japan's economy was far more scanty than about Germany. Amongst other

methods, the Department carried out a detailed analysis of Japanese purchases of machine tools in Western Countries before the war, information on which was obtained from the impounded records of the great Japanese trading companies in England and elsewhere. From this it was possible with technical help from M.A.P. to make an estimate of the capacity of her aircraft producing industry, rough indeed but of considerable value as a corrective.

The governing factors of Japan's war economy, however, were shipping and oil, and particular attention was paid to these subjects. Far Eastern oil, like Western oil, was remitted to the Hartley Committee. Shipping was studied in the Department in ever closer cooperation with the Admiralty.

In Far Eastern intelligence the Americans from the first took a leading place. They were from the beginning as near, as interested, and as deeply involved and in consequence Washington rather than London was the centre of gravity. Liaison was maintained through visits, rather than through the American E.W.D. at 40, Berkeley Square; and ultimately the Far Eastern Department was to send staff permanently to Washington to be 'integrated' into the U.S. intelligence machine. This stage of development, however, was not reached until 1944.

The Far Eastern war differed from the European, not least in that its operational headquarters—Delhi, Melbourne, Colombo, Pearl Harbour—were separated by vast distances both from each other and from both London and Washington. In the latter part of 1942 D.M.I. India called on Enemy Branch to organize an economic intelligence section in his intelligence directorate at Delhi. An official was sent out for this purpose, and after ten months' strenuous work handed over to his successor an efficient section (known as E.I.S.—the Economic Intelligence Section) staffed partly by Indian Army personnel and partly by Enemy Branch, and integrated in all but name with the American economic intelligence personnel who had been sent to Delhi by B.E.W.

In one important field the Far Eastern Department and the rest of the Branch found a common interest, namely in the detection and interruption of blockade running between the two zones. This traffic which began in the summer of 1942 opened the door to an exchange of goods of the greatest military importance to both Germany and Japan.

At the Japanese end it was beyond observation, whilst its European end in the Bay of Biscay was protected by shore-based aircraft and five or six hundred miles away from the nearest British airfield. It was thus most difficult either to detect or to attack. The fact that it had been virtually killed by the end of 1943 was due in no small part to the efforts of the Branch to convince the Services at all levels of its importance and to its contribution to the intelligence by which the operation was directed.

(9) *Sea Operations.* 1942 saw the development of economic intelligence for operations by sea as well as by land and air. The old Transport Department had become a section and been placed in Objectives Department, where it rapidly developed the necessary links both with naval intelligence and with naval operations. Apart from blockade running, the attack on enemy traffic in Northern waters gave great scope for liaison between

naval and economic intelligence. During this period this section estimated from economic material the volume and nature of economic traffic moving to the various Scandinavian ports at various times of the year. Such an estimate was, of course, essential to the planning of effective air and sea attack upon it. At the time there was little direct intelligence on the subject; later, when it became available, it corroborated very closely the estimate made from economic material.

IV. 1943

In April 1943 the Objectives Department was divided into two—an 'operational intelligence' department to deal with operational enquiries by sea, land, and air; and a country sections Department whose principal function was to produce the Basic and Zone Handbooks referred to below. The other departments remained as already described, but a new function appeared, namely an officer attached to the Military Sub-committee of the Ministerial Committee on reconstruction problems. This as described below was the beginning of the post-war functions of Enemy Branch.

Basic and Zone Handbooks. With the beginning of planning for the invasion of Europe the demand for economic and other intelligence relevant to Occupation vastly increased. Arrangements were, therefore, made by the J.I.C. for the production of politico-economic handbooks on all countries of Europe and also in greater detail on their various sub-divisions. These books were known as Basic and Zone Handbooks. They were produced and distributed by P.I.D., but Enemy Branch was solely responsible for the economic parts which were also published separately as Economic Surveys. The production of these Surveys claimed an ever-increasing part of the time of all technical sections, and unavoidably prejudiced their future work on current intelligence; whilst the functions of collation and editing required several teams which were organized into a new department. Throughout 1943 and 1944 the production and revision of these books formed one of the heaviest and most important tasks of the Branch.

Land and Sea Operations. In addition to the Basic and Zone Handbooks, the planning of the invasion of Europe increased the demand for surveys of 'resources' by countries and areas for inclusion in ISIS reports. By the end of the year it had become necessary to attach an officer to S.H.A.E.F. Headquarters and to prepare to provide a whole section when the operation began.

The shipping section developed its cooperation with the Admiralty and assumed responsibility for compiling and keeping the register of shipping in enemy waters. This shadow 'Lloyds Register' gave particulars under some fourteen headings of each of several thousand ships.

Air Operations. The conquest of North Africa extended the target area for air attack. Even greater was the extension due to the growth in range and striking power of the combined British and American air fleets.

1943 saw some major controversies about the relative merits of various industrial target systems which were at last coming within the range and competence of the Air Forces, notably ball-bearings, which after long examination was subjected to a fairly heavy series of attacks.

In this period also the operational department began to codify its

information on bombing targets and target systems into volumes known as Bombers Baedekers.

Technical Intelligence Sections. These developments threw an increasing strain on the technical intelligence sections, especially those dealing with armaments and engineering. At the beginning of the war the enemy intelligence sections of M.E.W. had been particularly concerned with raw materials, and included only one professional engineer. By April 1943 the Armaments and Engineering Sections formed a sub-department, which by mid-1944 was destined to be a Department and, with one exception, the strongest Department in the Branch. The building up of these sections raised most difficult problems of recruitment.

The Far East. The Far Eastern Department expanded both its technical and its territorial specialists, and at the invitation of the U.S. Army sent a team to Washington for prolonged collaboration in an economic survey which was being undertaken there. Meantime the newly established section in Delhi developed its functions both as a local collector of intelligence and as a means of collating and distributing to the High Command in India economic intelligence about the Far Eastern War. Although air operations against the Japanese area were beginning to be mounted both from China and from India by the end of the year, the contribution which the section was able to make to them was only limited.

Post-Hostilities Planning. During 1943 increasing attention began to be paid to post-occupational problems in Germany, such as disarmament, reparations, restitution, and frontier revision. These in turn demanded economic intelligence. Enemy Branch was the only organization in the Government which had been trying to keep informed of German economic developments throughout the war, and towards the end of 1943 it was increasingly required to produce appreciations of such major issues as the effect of partitioning Germany or repatriating Germans from East Prussia. These demands, added to the operational and strategic demands of the period, brought about an ever-increasing pressure of work.

V. 1944

Early in 1944 the developments described above resulted in two further changes in the organizations of Enemy Branch. First, the old Objectives Department was again divided, the shipping section being constituted a Department and made responsible for all transport intelligence. Secondly, a new post of Principal Assistant Secretary was created to carry the responsibility for all post-hostilities work. For this purpose one of the senior members of the Branch was provided with a small Department, and was also appointed Chairman of the Economic and Industrial Planning Staff, an inter-departmental committee whose function was to prepare plans and recommendations on economic aspects of the occupation or liberation and settlement of Europe.

By this latter development Enemy Branch stepped beyond the field of economic warfare and beyond the field of intelligence. It undertook part of the function of coordinating foreign policy, which properly belongs to the Foreign Office. At the same time (6th April 1944), it was transferred to the administrative control of the Foreign Office, and its name was

changed to Economic Advisory Branch. Its position was somewhat anomalous, since it was still chiefly engaged on matters for which the Minister of Economic Warfare was responsible. But it was clear that a time was approaching when those functions would wither away, and the political functions would become dominant. This was anticipated by the change of allegiance.

From that time E.I.P.S. developed rapidly, and became the focal point in Whitehall for coordinating economic policy in regard to the enemy world. Later in 1945 it was transferred to the Control Office for Germany and Austria.

Meantime the rest of E.A.B. continued its normal functions on an increasing scale, in addition to meeting some demands from E.I.P.S.

The success of operations against the German aircraft industry at the beginning of the year made possible even greater air operations, whilst the approach of D Day introduced an ever more critical time factor into the planning of these operations.

The technique for selecting target systems was improved by the formation of a Combined Joint Targets Committee (C.J.T.C.) on which British and Americans from all services representing the various Command Headquarters as well as the Staffs in Whitehall, and drawn from both planning and intelligence branches met regularly to discuss the major issues of target policy. Working parties subordinate to C.J.T.C. studied the various individual target systems, transport, oil, etc., and passed their findings to C.J.T.C.

E.A.B. and its U.S. counterparts were represented on C.J.T.C. and its working parties. Thus in the last year of the war there emerged for the first time satisfactory machinery for settling target policy.

The production of Basic and Zone Handbooks and 'Resources' Surveys continued unabated until almost the end of 1944. In addition the recruitment and training of staffs for military government led to increased demands for intelligence material, lecturers, and men.

A small 'combined' (i.e. British-American) section went overseas with S.H.A.E.F., its principal functions being to disseminate economic intelligence in S.H.A.E.F., to get answers to such economic questions as arose in connexion with strategy and operations, to collect documentary and other intelligence, and to ensure that all economic intelligence, however collected, found its way ultimately to E.A.B. As a counterpart to this, E.A.B. established in Censorship section a 'Combined Documents Unit' (C.D.U.) on which the Americans of E.W.D. were represented, and which was responsible for translating, summarizing, and circulating to an ever widening number of recipients, the vast mass of documents which came back from Europe. The *expertise* developed in Censorship Section throughout the war by the ever increasing complexity of its task in distributing intelligence material was thus turned to good effect.

A conspicuous intelligence problem of the year was posed by V.1 and V.2 both before and after their nature was known. E.A.B. was represented on the inter-service organization which analysed the intelligence on these two weapons. Unhappily they did not prove vulnerable to attack in the production process.

VI. 1945

During the first half of 1945 the emphasis shifted increasingly to problems of military government and peace-making, and to problems of 'post mortem'. How much attention should be given to a 'post mortem' enquiry into the course of the war when it became possible to verify intelligence appreciations by actual facts was a disputed question. The subject most in need of such an investigation seemed to be strategic bombing. The Air Ministry proposed a mission for the purpose in 1944, and E.A.B. promised its assistance. But the project was not accepted, and the Air Ministry did what it could with the resources at its disposal. E.A.B. continued to cooperate whilst it remained in existence.

At the end of 1944 Far Eastern intelligence was re-organized by the transfer to Washington alone of some of the responsibility hitherto carried by London and Washington independently, and at the same time of some of the staff concerned. This affected E.A.B. The head of the Department and four of his staff went to Washington, where three of them became 'integrated' members of the American intelligence organization. Shortly afterwards the intelligence section at Delhi (E.I.S.) was transferred to S.E.A.C. at Colombo. The unexpectedly quick ending of the Far Eastern war followed soon after these changes.

With the end of the war the need and justification to keep E.A.B. as a single entity disappeared, and its various parts were attached to various Assistant Under-Secretaries at the Foreign Office. The third E.R.D. Department became the Economic Intelligence Department of the Foreign Office. The operational departments were dissolved. The rest of the Branch, after a temporary sojourn in the Foreign Office, passed to the Control Office for Germany and Austria.

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