Dear Mr. Hull:

The Austro-German agreement forecasted in my letter of July 8 to you was announced on Saturday evening, July 11. In my despatches Nos. 823, 825 and 826, which go forward by this pouch, I am giving as much detail as the time permits before the departure of the pouch, which cannot be delayed in order to catch the steamer. I believe I have given adequate background in these despatches, and particularly in my letter to you of July 8, for the agreement, and I shall confine myself in this letter to some brief comment on what the agreement may mean.

Up until Saturday morning July 11 the Austrian Foreign Office was not sure that Hitler would agree to the declaration on Austrian independence. They had been told that he was in agreement, but they considered it such a major step by him that they felt that he would insist on conditions to the last minute which Austria would not meet. Papen returned to Vienna from an interview with Hitler on the morning of Saturday July 11 with instructions sufficiently flexible to permit the agreement to be realized. Even in his last interview with the Chancellor on Saturday morning he endeavored to get the admission of some Austrian Nazis into the Cabinet. The Chancellor refused to do this, but realizing that the Austrian position would be further endangered if the agreement did not come into force with Hitler agreeing to recognize Austrian independence and non-interference, he agreed to bring in several so-called "nationally-minded Austrians", who, however, he considers his friends and on whom he feels he can depend.

The Honorable
Cordell Hull,
Secretary of State,
Washington, D. C.
The one is Glaise-Horstenau, a former officer, a friend of the Chancellor's, a member of the Patriotic Front and connected with the Vienna University. It will be his task to act as the liaison between the nationally-minded elements in Austria and the National Socialists, in the endeavor to bring them behind the Government. The other is Dr. Guido Schmidt, who has been the right hand of President Miklas. He is a very young man and is brought in as Secretary of State for Foreign Affairs, which is not full cabinet rank. The Chancellor retains the management of foreign affairs, which is very fortunate, and I cannot see Schmidt making a great success as his Under-Secretary. I know him very well and have very friendly relations with him, and while he is a well-meaning and most agreeable young man, he does not have the particular qualifications for the job which the Austrian press ascribes to him and he is not really, so far as I now know, a strong character. His appointment to this particular position is a great surprise to everyone. I have known his Pan-German ideas for some time, but he does envisage his Pan-Germanism from the point of view of full Austrian sovereignty, not realizing that the two cannot go together. There is talk of a third "nationally-minded Austrian" being brought into the Government, and I think this is very likely.

Schuschnigg's action in bringing these people into the Government now is a concession to the Germans, but not the concession which they were after. Time alone can tell whether Schuschnigg was right, but one thing is clear and that is that he was forced to an agreement, and I believe that he is going to stick to his guns, but it is going to be exceedingly difficult for him.

The Secretary General of the Foreign Office called me to the Foreign Office on Friday the 10th and he told me that the agreement was imminent, that the Italian, French and English missions here had been informed, and that the Chancellor wanted him to give me and the Swiss Minister, because of our understanding of the Austrian position, the same information as had been given to the others.
He seemed to have little confidence that the Germans would carry through their agreement, and this feeling seemed to be shared by the responsible officials of the Foreign Office, as I have already pointed out in a previous letter. It was interesting that when I asked the Secretary General what he thought impelled the Germans to make this major concession in recognizing Austrian independence, he said that he felt sure it was the German internal situation, her inability to answer the German memorandum, and the desire to better her position vis-a-vis England. This you will note was what I indicated to be the position in my letter of July 8.

The Foreign Office here believes that the working out of the details "to better relations" between the two countries is going to be difficult and that it will not be a process of a few days, but of months. The amnesty is going to be particularly difficult, and the Austrians will have a particularly difficult task before them, as National Socialism remains forbidden as a party in Austria. On the other hand, National Socialist sentiment in Austria is bound to grow, for a good many people will take the agreement to mean the beginning of the end in spite of this affirmation of Austrian independence. The enclosures, particularly Enclosure 4 to my despatch No. 826, are interesting, and I shall not go into further detail on specific points to be covered in the gentleman's agreement for the present. The German newspapers are to be admitted to Austria gradually, and this will not be conducive to internal order here. All sorts of problems are going to arise within the country, and although I have given the whole matter careful thought, I am not yet sure that the Austrian internal position will be strengthened by this arrangement. Although I was specifically assured by Secretary General Peter that there would be no toleration of the Nazi ideology in Austria, and particularly no such thing as discrimination against the Jews, I feel that there are dangers in this direction which are real and which may present a major problem for the Austrian Government. That its intentions are good I am sure, but as to how definitely it can meet the various forms of infiltration from Germany I am not so sure.
Although it is denied that there is any connection between this agreement and restoration, I have good reason to believe that during a recent conversation between Schuschnigg and Papen the restoration matter was a major subject. Papen asked the Chancellor who in case of restoration would be invited to the throne. The Chancellor said that restoration was not a matter being considered by the Austrian Government, but that if it were, there was only one possible candidate to be considered, and that was Otto. Papen then asked if it was the intention of Austria when it considered restoration to consult Berlin. The Chancellor replied that that thought had not occurred and would not occur to him, as restoration was an internal matter. Papen then said that under these circumstances he was authorized by his Government to state that he considered restoration as of vital interest to Germany, and that if Germany were not consulted, she would consider her interests menaced and would act accordingly. I think there is little doubt that the foregoing conversation took place. The German Government remains, whether it is Nazi or any other government, opposed to restoration, especially if it is a Hapsburg, for the Hapsburgs before the war were the principal obstacle to German penetration in Southeastern Europe. They feel that on the Austrian throne the Hapsburgs would again be a similar obstacle.

Although the recent emphasis which the Little Entente and Paris and London have given to their attitude on restoration helped to put restoration in the background, I think that in view of the Austro-German agreement and what I have said above, it may be considered pretty definite that restoration is out of the question as long as the present trend in the European situation continues. Schuschnigg could not move in the direction of restoration without Italy, and in view of the negative cooperation between Italy and Germany, which may be translated slowly and even more rapidly into positive cooperation, he cannot do anything about it. I think the monarchists are more discouraged than they have been for years. In any event, restoration is completely out of the picture as an element in the Austrian or Southeastern European problem for the present.
5.

I believe that no one in Austria, with the exception of the National Socialists, the so-called "nationally-minded Austrians" and some of the peasants and smaller people are very enthusiastic about the agreement. They naturally prefer to have good relations with Germany. They hope that it will bring an improvement in commercial relations, and this hope is even strong in intelligent commercial circles, which are, I think, going to be much disappointed. Thinking Austrians for the most part, while they would like to welcome the agreement and while they must take a certain satisfaction that Hitler has been brought to recognize so publicly Austrian independence, know that the arrangement may mean little and be only the beginning of the decline of Austrian sovereignty.

The Chancellor has done his best to safeguard the Austrian position. He will continue to do so. In a declaration over the radio following the agreement, the Government went so far as to still mention the League. It is going much too far to say that Austria has cast her lot with Germany and with Italy before the agreement Italy was her principal defender. Now Germany agrees to respect her independence. She has to cooperate with both and will be between two fires. Mr. Blum in Paris said very wisely the other day that dictatorships cannot agree and cannot afford to disagree. It is very clear that both Berlin and Rome will endeavor to use Austria to serve their ends in Southeastern Europe, and there are bound to be differences between Berlin and Rome for the interests which they both pretend to in this part of the world are so diverse and opposed. Germany hopes through the neutralization of Italy to use Austria as the bridge to the Southeastern European states. Italy hopes through the Rome Protocols to use Austria for the same purpose.

For this and other reasons I believe it is too early to speak of a Berlin-Vienna-Budapest and Rome bloc. Cooperation, yes, a certain sympathetic understanding also, but Austria is not yet at the point where she will allow either Rome or Berlin to use her as a servile instrument or to impinge on her authority. On Schuschnigg's side the Rome
Protocols were an honest agreement, just as the Austro-German agreement is with him an honest one. He is going to make a valiant effort in both directions to maintain real Austrian sovereignty, and that is why the Government today mentioned even the League as one of its supports with which it would endeavor to continue to cooperate. What he will be able to do remains a question which only time can clear up.

Of the major implications in this agreement I have spoken adequately in my letter of July 8. We are going to see Germany use it to the utmost with England and with France, and she will have a good deal of success. I am confident, however, that in both England and France the reasons for the German action will be pretty well understood and that while the press in both countries will receive the agreement as a step forward, there will be no enthusiasm. The London TIMES will probably be the only important paper in England which will accept the agreement unreservedly as an expression of bona fide good intentions, but the task of the British Government is going to be very difficult. Italy will use her new position to the limit, but how far she will be able to use it will depend upon the degree to which active cooperation between Berlin and Rome is possible. I think, as I have already pointed out, the basis for active cooperation between Rome and Berlin now exists. How far that path can be traveled is another matter.

The Czechoslovak Chargé here is inclined to view the agreement with some enthusiasm, because he thinks it relieves the pressure on Czechoslovakia. He is in my opinion very short-sighted, and I doubt whether his Government shares his opinion. The Czechoslovak position is for the time being relieved, but in fact it only makes it possible for both Italy and Germany to conspire with Poland and Hungary against Czechoslovakia. Italy has no interest whatever in the maintenance of Czechoslovak sovereignty or integrity, and I think we will see Czechoslovakia become one of the active pawns which Italy and Germany will use with Poland, Hungary and Austria.
The Czechoslovak-Austrian treaty, which was to go into effect on July 1 and which the German objections in Prague and Vienna stopped, is now to go into effect on August 1, but with some twenty of the leading items in which Germany was interested definitely cut out. This means that the treaty is thoroughly emasculated, and I do not see how there can be any progress in inter-Danubian preferences except through agreement between Italy and Germany at the expense of major powers, and here, too, Germany and Italy are going to have such conflict of interest that nothing much is likely to happen for the present. More than ever, however, I see insuperable difficulties in our being able to do anything with our trade agreement program with these smaller states in this part of the world.

I have dictated this letter very hurriedly in order to catch the pouch.

Believe me, with very good wishes,

Cordially yours,