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Vienna, September 24, 1938.

No. 914.

SUBJECT: DEVELOPMENTS IN THE AUSTRIAN INTERNAL AND EXTERNAL SITUATION.

CONFIDENTIAL.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to the Legation's confidential despatch No. 903, of September 8, 1938, on developments in the Austrian external and internal situation, and to confidential despatch No. 908, of September 15, 1938, supplementing my despatch No. 903, of July 17, 1938, on the Austro-German accord of July 11, 1936, and its effects on European developments. I have now to transmit the following further information on developments in the internal and external situation.

Internally

Internally the situation in Austria has remained quiet without any developments of primary importance. Various items of interest in the internal position are covered in the Weekly Notes which are being transmitted with this youch.

During the past few weeks interest here has been chiefly centered on the external position which has been influenced by several events of primary importance. The meeting of the Little Entente Powers at Bratislav undoubtedly strongly influenced the visit which the Austrian Secretary of State for Foreign Affairs has made to Rome. This meeting of the Little Entente States at Bratislava, which closed about a week ago, had been carefully prepared and was in some respects one of the most important meetings of the Little Entente States for a long time. This is not the place to enter into a discussion of the decisions reached at Bratislava, but it is necessary to note here that before the end of the Conference it was obvious that the ties of the Little Entente States were being very carefully strengthened through these deliberations and the decisions reached. Under the increasing economic pressure of Germany, particularly in Hungslovia and Rumania, and what appeared to be the well grounded fears of Czechoslovakia through the determined German attack on the Russian-Czechoslovak agreement, the fears of the Little Entente States of this increasing economic and political pressure found expression in decisions to increase economic cooperation within the limits of the Little Entente, and to exchange raw materials as a part of their defensive program, and to avoid too great dependence on Germany for military supplies.

Without

Without going further into the decisions reached at Bratislava, it is sufficient to say here that the result of the meeting was to definitely stop the disintegration process in the Little Entente which had been only too apparent and which had gathered momentum since the German military reoccupation of the Rhineland on March 7, 1936. This is a factor of primary importance and has greatly influenced succeeding developments in the major European picture.

Already before the end of the Bratislava conference the Secretary of State for Foreign Affairs, Dr. Schmidt, had gone to Rome on a visit which was officially in Austria and in Italy declared to be merely one of the usual visits foreseen under the Rome Protocols. There is, however, good reason to believe that the Austrian and Italian Governments were aware, at least to a degree, of the importance of the decisions which would be reached at Bratislava and that the visit of Dr. Schmidt to Rome had primarily the purpose of determining what attitude should be taken as a consequence of the Bratislava meeting.

In the Weekly Notes which are being transmitted with this report are given records of the statements which Dr. Schmidt made in connection with his Rome visit. In these he has again explained the advantages of the Rome Protocols and pointed out the importance of economic cooperation between all the Southeastern European States. He has again explained that the Rome Protocols do not form a bloc but that it is a group open to others. His published statements have no particular significance except to show a receptive attitude towards the more friendly advances by the Little Entente towards the Rome Protocol States which might be expected as a result of the Bratislava meeting.

The principal

The principal feature of the Rome visit of Dr. Schmidt was the announcement while he was still there of the decision to call a conference of the Foreign Ministers of the Rome Protocol States in Vienna which it was stated would be held towards the end of October. This was in fact the answer of Hungary to the Bratislava Conference. The background of this meeting is quite interesting. I have not deemed it advisable to call on the Secretary of State for Foreign Affairs since his return from Rome to secure first-hand information concerning his visit, but from one of my most interested colleagues here I learn that Dr. Schmidt informed him that the Italian and Austrian Governments were both of the opinion that such a meeting would be advisable. The Hungarian Government was not against a meeting, but desired it to be held in Budapest.

The Italian and Austrian Governments were both of the opinion that the Conference of the Rome Protocol States could be held under much better auspices in Vienna than in Budapest. If held in Budapest both Italy and Austria felt that it would be executed too much under the shadow of pro-German currents so strongly apparent in Hungary and that this might lessen the influence of the meeting on the Little Entente States. It was felt by both Italy and Austria that because of the excellent friendly relations which Hungary has with Czechoslovakia and Yugoslavia, a meeting in Budapest would be viewed in a less friendly manner than one held in Vienna.

The Increasing

The increasing economic pressure of Germany in Southeastern Europe has had the effect not only, as above noted, of strengthening the ties among the Little Entente, but also of disturbing Italy. The economic, as well as the political, objectives of Germany and Italy remain fundamentally opposed in spite of this cognition, and in some respects political cooperation which has been apparent between the two countries. The accord of July 11, 1936, between Berlin and Vienna has temporarily removed Austria as a discordant element in Berlin-Rome relations, but the mutual mistrust of the two dictators remains as great as ever, and the fundamental clash between their objectives in Southeastern Europe just as clear. Italy wishes to see greater cooperation between the Rome Protocol Powers and the Little Entente and even ultimately with the Balkan Union, but she wishes this cooperation to take place under her protection, both from the point of view of the political prestige involved and of the economic advantages to be obtained. She realizes, however, that both from the political and the economic point of view she is weaker than Germany in that she has less to offer and can take less.

On the other hand, Germany, while for the present it suits her purposes to stimulate discord and dissension among the Southeastern European States, cannot pursue a policy openly against cooperation among them. Such cooperation, however, which she intends to permit, she intends shall take place under her guidance and domination. This is a situation which I believe it is of primary importance to consider in connection with developments in Southeastern Europe in the next months.

No

No sooner had the Italian and Austrian Governments announced the meeting of the Rome Protocol States to be held towards the end of October than the press carried reports that Baron von Neurath, the German Foreign Minister, was to make a purely private visit to Budapest where his daughter is married to the German Minister, von Hadikmann. There seemed to be little doubt that the von Neurath visit was intended to sabotage this Vienna Conference before it got started, or at least to delay it as long as possible. The German Government had viewed with concern the efforts which Italy was making to use Austria as a bridge to the Little Entente States and this Vienna Conference which in some respects was to be a response to the more friendly attitude towards Italy shown by the Little Entente Statesmen, could have only the result of disturbing Germany further.

Although Hungary has been veering between Germany and Italy for several years, she has been leaning more recently fairly strongly towards Germany. It was therefore through Budapest that the German efforts to sabotage the Vienna Conference could most readily be exercised and an emissary more persona grata in Budapest than von Neurath could not be found. He seems to have had considerable success in his efforts. I am able to inform the Department that I learn from a well informed source that the Italian and Austrian Governments wished the Vienna Conference to be held on a fairly early date. Under the influence of the Neurath visit, Hungary refused to agree to an early date on the ground that a too early meeting would be inopportune and would give the meeting merely the appearance of

a subterfuge

a countermove to the Bratislava meeting of the Little Entente. The indications are that as the result of the Hungarian attitude, the Vienna meeting may not be held before sometime in November, or even later. The Hungarian attitude, while probably strongly influenced through the visit of von Neurath, may at least also be partially attributed to a certain resentment which is felt that the meeting was not held in Budapest as the Hungarian Government strongly desired, and also because Hungary has continuously felt that the Rome Protocols have worked out much more to the advantage of Austria than of Hungary - which is in fact the case.

While the foregoing does not indicate that Hungary has cast her lot with Germany, it is a reflection of the increasing pro-German tendencies manifest in the Government. The Hungarian Government, or at least certain members thereof, have also not yet recovered from their unhappiness over the failure to draw Chancellor Schuschnigg into the conversation which the Regent Horthy had with Hitler during the Regent's recent visit on a "shooting trip" to Ann Iris.

The increasing economic pressure of Germany on the Southeastern Europ an states has, as I have brought out in recent despatches, aroused real fears in the Little Entente and the Balkan Union. It has had the effect of making those states realize more definitely than ever what they have in a measure always realized but have not been able to act on - that their principal defense lies in improved commercial relations between them. All efforts to bring this about have failed, partly because of the traditional, historical, and

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territorial differences between them, and partly because for purposes of their own neither Italy nor Germany have desired it to progress. Italy, with its fundamental interests so opposed to those of Germany in that region, and recognizing itself as the weaker in this struggle, is making the present advantage offered by the fears of the Little Ent ente of Germany to strengthen its own position and wishes to use the Rome Protocol States as a bridge. The Vienna Conference is planned for the purpose of studying ways and means by which the economic relations between the Rome Protocol States and the Little Entente can be strengthened.

From Austrian sources no direct information is available as to the probable date of the Vienna Conference, but such statements which the press has been carrying indicate that it is a meeting which will require careful preparation and much exchange of views between Rome, Vienna and Budapest. It is interesting, however, in this connection that when one of my most interested colleagues asked the Secretary of State for Foreign Affairs, Dr. Schmidt, as to whether Germany would participate in the Vienna meeting, he replied "I think not". I believe that it may be taken for granted that the German effort will be directed towards nullifying so far as it may be possible any useful results of this Conference, and it will endeavor to work principally through Budapest to this end.

In connection with the Vienna Conference the Austrian Government will again be placed in a very difficult position. It is of the opinion that no arrangements for thorough-going and durable economic cooperation in Southeastern Europe are possible without Germany. In this attitude it is undoubtedly correct, for England and France, although they show increasing

evidence

evidence of recognising that this problem is to a far-reaching extent an economic one, are not yet prepared to draw from this region those agricultural products which it must export, and Italy does not have the economic power to adequately take the agricultural exports of Southeastern Europe. In some respects Southeastern Europe is a natural economic hinterland of Germany and this is recognised in Austria as well as in most of the Southeastern European States. The position of Austria is particularly difficult, for it does not wish to take an attitude against Germany, and on the other hand it must still realise that the Italian aid is the only external aid upon which they can definitely depend in the struggle of independence should there be aggression against Austria. The Austrian preoccupation in this respect is brought out by the fact that during a recent visit to Rome the Secretary of State for Foreign Affairs, Dr. Schmitz, took occasion to ask Mr. Mussolini the unusual question as to whether Italy had any arrangements with Germany. To this question Mussolini replied that he had no arrangements with Germany either of a political or of a military character. I may say that this latter information came to me from a well informed source.

The difficulty of the Austrian position is further explained by its recent vote at Geneva against the admission of the Abyssinian delegation. The declarations made by Dr. Schmitz in this connection at Geneva are particularly interesting and I think it may be worth while to quote the following:

> "In order to exclude any misunderstanding, I think that I must emphasize again that in our attitude we were exclusively guided by

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> the vital interest which not only Austria, but the whole of Europe must have in the active co-operation of Italy at a decisive moment in European developments."

The Austrian vote at Geneva was undoubtedly influenced entirely by the fact that it must still look upon Italy as its sole active supporter in case of aggression by Germany. Should Italy decide to leave the League as a result of the exclusion of the Abyssinian delegation, as is feared in some quarters and I believe very much feared in Government circles in Vienna, the Austrian Government will be faced by another decision similar to that when Italian pressure was previously exerted to get Austria to leave the League if she did so. It is my impression that in case Italy should leave the League, Austria will again refuse to do so.

As I have pointed out in my despatch No. 908, of September 18, the principal preoccupation of the Austrian Government is the maintenance of its independence. To this end it must do everything in its power to retain the friendship and support of Italy, and it does not wish in any way to antagonize Germany. On the other hand, as I pointed out in that despatch, developments have shown that the Austrian Government maintains a certain independence of action vis à vis Italy under the Rome Protocols, just as it has shown that it maintains that liberty of action vis à vis Germany under the accord of July 11, 1936. It unquestionably, however, welcomes the Vienna Conference of the Foreign Ministers of the Rome Protocol States, for this meeting will emphasize, with its implications, the interest which Italy maintains in Austria and in Southeastern Europe, and will help Austria in resisting the pressure which Germany will undoubtedly endeavor to assert during the negotiations for a

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definite trade agreement between Germany and Austria. These negotiations which, as I informed the Department, were to begin towards the end of September, have not yet started and I have not been able to get any definite information as to when they will be begun. In view of the difficulties in the way, I doubt whether either Berlin or Vienna is pressing for an early start.

Respectfully yours,

George S. Messersmith.

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