

360  
NO. 1970

AMERICAN CONSULATE GENERAL,  
Berlin, Germany, March 23, 1934.

SUBJECT: Further considerations in connection with the possible negotiation of trade agreements between the United States and Germany.

THE HONORABLE

CONFIDENTIAL.

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to my confidential despatch No. 1964 of March 22, 1934, File No. 610/800, presenting for the information of the Department certain considerations which may be of interest in connection with the negotiation of trade agreements between the United States and Germany and to give below further information and comment in this connection. In the despatch underreference I indicated that the German authorities were showing a very keen interest in entering into such negotiations and took the liberty of pointing out the existence of certain factors which might make the negotiation of a trade agreement with Germany particularly difficult. Since forwarding this despatch developments have taken place very rapidly which substantiate the background information given in it and which indicate that the instructions which the German mission which may eventually go to the United States will have, may be of such a nature as to make the success of the negotiations very problematical.

At the outset I may call the Department's attention to the memorandum appended to this despatch, of a conversation which I had with a responsible officer of the

German

German Foreign Office who has assisted in some of the preliminary preparation work for the ultimate negotiations. Briefly, in this private conversation, he indicated that the German mission was planning to proceed to the United States in May; that the German authorities felt the necessity of opening negotiations as soon as possible; that the principal object of the German negotiations would be to provide themselves with essential raw materials which they wanted from the United States; that an attempt would be made to put the exchange between the United States and Germany on a balanced trade basis; and that in exchange for the raw materials which Germany agreed to take, the United States should agree to take manufactured goods from Germany. He himself expressed pessimism as to whether the German negotiations with the United States could have a successful outcome and said that all the others who had been present at the preliminary conversations had been remarkably optimistic, which optimism they based principally on "President Roosevelt's new book" and on a conversation which the German Ambassador, Dr. Luther, is said to have had with President Roosevelt some three weeks ago.

In my confidential despatch No. 1964 of March 22 already referred to, it was brought out that the increased industrial activity in Germany and the need for raw materials to keep up this activity as well as the precarious exchange situation, would probably result in the near future in certain raw materials being practically

placed



placed under Government monopoly. Two days after writing this despatch, the Government announced that sales of cotton, wool and other textile raw materials were prohibited pending the organization of a Government scheme for the allocation of imported textile raw materials to German industry. This was immediately reported to the Department by the Embassy by cable. In this same despatch I called attention to the probability of copper being placed under what is practically a Government monopoly and importations strictly controlled by the Government. The announcement of this control over copper was made late yesterday afternoon. It is interesting and significant to note that the control so far announced and exercised over raw materials applies to fats, cotton, wool, textile raw materials and copper as well as non-ferrous metals, and that all of these are the raw materials with the probable exception of wool, in the exportation of which to Germany we are interested. In other words the raw material monopolies so far established have affected us more than any other country. The public statements which have been made in Germany with respect to these monopolies emphasize that no embargoes on imports have been established as yet and that it is the difficult exchange situation and the absolute need of the country for these raw materials which have forced the Government to these measures. There is, however, considerable reason to believe that in spite of the really difficult exchange situation, one of the reasons why these monopolies are being established is to

prepare the ground for the negotiations with the United States.

The unusually voluminous comment in the controlled German press which started several weeks ago, emphasizing the need of Germany for raw materials to keep up the internal activity in industry and the necessity for being able to pay for these raw materials in exports of German manufactured goods, is continuing. The Consulate General at Stuttgart has reported in its despatch No. 1517 of March 19, 1934, that the "Office to advance foreign trade" at Mannheim for the district of Baden and the Palatinate has recently elected to its board of directors several of the most prominent industrialists in that section of Germany and that the head of this office in his report to the advisory committee recently pointed out that it was now a necessary economic policy to give up gradually the connections made through the Most-Favored-Nation treaties which have been found for the most part worthless, and to attempt to create within Europe, greater markets for German goods thru the conclusion of bilateral agreements. It is interesting in this connection to note that in official circles in Germany it seems to be taken for granted that our new policy at home will be definitely to abandon the Most-Favored-Nation clause in treaties and to put our entire emphasis on bilateral agreements. The emphasis on the need for increased German exports is not only found in the press in Berlin, but throughout the whole country. Political leaders who have heretofore spoken

exclusively



exclusively on inner political matters are emphasizing this need for raw materials and the absolute necessity that German business men put themselves to the task of "conquering" foreign markets for German goods to pay for these materials and that their "most clever men" must be sent abroad to carry through this program.

The Press Division of the Propaganda Ministry invited the representatives of the foreign press to a press conference on the afternoon of March 27. Dr. Funk, the State Secretary of the Ministry of Propaganda, at this meeting said that the representatives of the foreign press in Germany seemed for the most part to look on what was taking place in Germany industry from a different point of view than the National Socialist Party and for this reason were not able to correctly interpret German policy to the rest of the world. He said:

For us the general business policy has never been principally a money problem, not a question of international monetary systems and of international credit markets, but more particularly a problem of will, belief and organization. We could have concentrated the entire will and organization strength of the State as well as all the capacities of our authoritative State and of our industrious and gifted population, on our export market. There is no question that if we had done this we could have leapt over all tariff and devaluated currency walls; but then the foreign markets would have been thrown into greater disturbance than they are actually in. Foreign countries, therefore, should be well satisfied with the present commercial policy in Germany which is putting all its energies on the inner market and concentrating its strength on the development of employment and industry in the country. The difficult exchange situation, therefore, could easily drive us to a policy of forcing exports."

I have quoted this at length as these statements could well have been made by his chief, the Minister of

Propaganda,

Propaganda, Dr. Goebbels.. It is practically a veiled threat that if Germany is not provided with raw materials to keep up her internal activity, she will be forced to follow the same dumping measures and the same internal industrial measures now practiced by Japan. It is a very thinly veiled threat that the control of the National Socialist Party over Germany will be used to reduce wages within the country to such a point that German goods will flood foreign markets.

The Minister for Labor, Seldte, then followed, speaking of "the happy and sacrificing cooperation of the German people in the great work of providing employment and their belief in the leadership of Hitler who has shown the end and the road to it".

State Secretary Reinhardt of the Ministry of Finance followed and said:

"We will, according to my reckoning, at the end of July, 1934, have only 2 millions of unemployed left and at the latest in the summer of 1936 still a few hundred thousand. All the measures of the Government will be directed towards increasing the demands for goods and services and with this strengthen the demand for labor".

State Secretary Fosse of the Ministry of Commerce then followed, saying that he had followed with interest the foreign comment in the last few days on the measures taken by the Government regarding raw materials and that these measures had been incorrectly interpreted abroad. He said that he had read that the Government took these steps only to carry on its program of rearmament and wished to assure itself of essential raw materials for

this



this program. He said that the opposite was the case; that the Government only wished to see that industry was protected against speculation and would be assured of necessary raw materials. He went on to say that the foreign press stated that Germany was putting into effect embargoes and that this also was not correct as not a single embargo had as yet been established. He said that the measures taken by the Government with regard to raw materials were only a consequence of the difficult exchange situation and were essential in order to avoid a panic on the markets and that discrimination against foreign countries was in no sense intended. He closed by saying that it seems pretty well self-evident that if the general policies now being carried out in so many countries were continued, Germany might be obliged to take certain measures, particularly if the principle were not put into practice that the debtor can only pay to-day in the form of goods or services.

I have thought it worth while to call attention to this press conference of yesterday afternoon as I believe it was particularly intended for the representatives of the American press who were to get over to the American people information preparing them for the main German thesis, that Germany must have raw materials and that she can pay for them only in manufactured goods and services.

The Department may be interested to know that the general impression among American business men here with

regard

regard to American-German trade relations for the next few years, is rather pessimistic. They do not see how we can agree to accept German manufactured goods or make any arrangements, tariff or otherwise, to accept such German manufactured goods in sufficient volume to provide for the payment of raw materials or to balance our trade. They feel that the acceptance of German manufactured goods in the volume required to balance the exchange would cause such disturbance in our own industrial structure at home and lead to such unemployment and reduction of activity in many American manufacturing establishments, that the compensation offered is entirely inadequate. They also feel that the general attitude towards existing foreign obligations in Germany is such that it precludes any possibility of Germany being assisted in the form of new credits for raw materials.

Considerable time may still elapse before we are prepared at home to receive a German mission, and changes in the German attitude may take place in the interval; but I believe it may be safely said to the Department now that the basis of the German negotiations will be their willingness to take certain raw materials for which we are to take an equivalent amount of manufactured goods. They realize the difficulties of various kinds which we would have in taking an equal value of manufactured goods and while striving for as great concessions in this respect as possible, they will undoubtedly then stress the need for credits. The present Government would probably not

hesitate



hesitate to use as background in its negotiations, its complete control over the German economic system and its ability to reduce wages and standard of living to enable Germany to flood the world with German goods, a measure to which she may be forced. They will advance the idea that the German people are so devoted to the new system and to Mr. Hitler, that they will follow him happily and willingly into any sacrifices which may be necessary to preserve themselves.

The personnel of the German mission is not yet clear and I have no further information as to its composition; but as soon as any information is available I will not fail to keep the Department informed. It seems fairly clear as things stand now, that Dr. Posse will be one of the leading members of the mission. This would be in many respects desirable, for he is fully familiar with the discrimination against American interests in Germany.

It will undoubtedly be our desire in such negotiations which we may have for a trade agreement with Germany, to endeavor to assure ourselves of as large an outlet for raw materials to Germany as possible. It is an important consideration for us, but I believe that our preparatory studies will disclose that an important factor to be borne in mind in this connection is that fundamentally Germany much prefers to get raw materials from her neighbors and from some other countries. Keen as Germany's interest in us may be as an export market, she has her eye also on her neighbors, many of whom can only pay her through the

agricultural

agricultural and other raw products which Germany takes from them. Germany is actively making agreements with European countries and her principal bargaining power with these countries is to take certain agricultural products from them. Her political program and her economic program involve consolidating her position in Europe and she wants to get what she has to import in the way of foodstuffs and raw materials from the nearest possible source. I think therefore these considerations will be very much in the minds of the German negotiators when dealing with us. Their principal object will be to assure themselves of certain raw materials from us which they cannot with more advantages get from their neighbors. We cannot ignore the fact that for very natural reasons Germany wishes to make itself independent as far as possible from overseas sources of raw materials. In case of trouble she has at least far greater chances of getting them over land than over the seas. There is good reason to believe that fundamentally Germany looks to us less and less for raw materials and therefore it would probably not be wise nor far-seeing on our part to make arrangements for a temporary outlet for certain agricultural and raw products at too great a price. While the composition of the German mission as I have already said is not yet clear, it may be taken for granted that it will be made up of men who have a very definite knowledge of Germany's relations with her European neighbors and who, in negotiating with us, will have constantly in mind

existing



existing and contemplated arrangements with these nearer neighbors.

In my despatch No. 1964 under reference, I called attention to the ways in which American business and American capital in Germany are suffering and the fact that our Treaty of Friendship, Commerce and Consular Rights has not been sufficient to adequately protect these interests under existing circumstances in Germany. This is a factor which can hardly be ignored in any negotiations which we may have with Germany for new trade agreements, and while I believe that such negotiations should be undertaken and that we should protect our existing trade and interests in every possible way, I cannot help on the basis of the direct knowledge I have of certain situations here, but be somewhat pessimistic. The present German Government is proclaimed to be an authoritative State and the higher authorities are supposed to be in a position to be able to enforce their will on the people. It is, as a matter of fact, an authoritative State; but my experience extending through the whole period that the new Government has been in power, is to the effect that the real authority is not vested in a few leaders at the top but is really in the hands of a very considerable group of secondary leaders and that these secondary leaders are in a position to carry through their will in many things against the higher leaders. As I have already indicated in previous despatches, one of the principal qualities of the Chancellor,

Mr. Hitler,

Mr. Hitler, is his ability to know when he can do certain things and when he must refrain from doing them. It is unquestionable that the higher authorities of the present Government have learned a great deal since March 5, 1933 and have a much better understanding of Germany's international position. This understanding, however, has not permeated very thoroughly the ranks of the secondary leaders who actually exercise the authority and who have the contact with the masses. Whether action, therefore, can be carried through in any matter, depends not so much upon the will of the major leaders but upon the willingness and the attitude of the secondary leaders. This is a factor which cannot be ignored in negotiating trade agreements with Germany. Obligations which may be undertaken by the Government it may not be possible to carry through, simply because the secondary leaders are not willing that they should be made effective. Although the high authorities for example, recognized some months after March 5, 1933 that they could not ignore the obligations of Germany under our treaty and although the Chancellor and cabinet ministers have from time to time given assurances that American interests and American capital must be protected and enjoy the reciprocal rights and privileges that German capital and German firms have in the United States, the secondary leaders of the Party have never been able to accept this idea and are definitely oriented against foreign capital and interests, even though discrimination is involved, and the result has been very definitely and is, that our interests in Germany are suffering and shrinking in value.



As this matter is one of primary importance, a concrete example may be of interest. In January of this year the Metro-Goldwyn-Mayer in Germany submitted for the approval of the German censorship in the Ministry of Propaganda, the English version of a film in which Max Baer, Carnera and Dempsey are the principal actors. Although it was known that Baer is a Jew or has Jewish ancestors, the English version of the film was approved. On the basis of this approval the Metro-Goldwyn-Mayer proceeded to make a synchronized German version of the film together with copies, and invested some 150,000 marks in the production. When the German version was submitted to the censor in the Propaganda Ministry, the Metro-Goldwyn-Mayer learned through official sources that it was forbidden. Through the intervention of the Foreign Minister with Dr. Goebbels, the Minister of Propaganda, the company was given permission to present the English version if the German version was withdrawn so that the German authorities would not be placed in the position before the public of banning the German version, as the only ground which could be given was that Baer was a Jew. The company refused to accept this decision, stating that they had proceeded entirely in good faith in making the German version after the English version had been approved and that it could not continue in business if the censorship of the Ministry of Propaganda by such arbitrary acts made it lose 150,000 marks on a single picture which the firm had every reason to believe could be produced.

Accompanied by Consul Geist, I called on Ministerial

Direktor

Direktor Dr. Greiner of the Ministry of Propaganda. Dr. Greiner is an official who realizes the international implications in the forbidding of the German version after the English version had been approved and also the further effect on the German situation abroad of the action of the Government in forbidding a film simply because a person having some Jewish blood happens to be one of the actors in it. Dr. Greiner, however, had with him during the conversation, the head of the Film Division of the Propaganda Ministry with one of his associates. I explained the situation very thoroughly to Dr. Greiner and his two associates. It is significant that Dr. Greiner throughout the interview did not make any comment and did not make any suggestion to his subordinates. The attitude of the subordinates however, clearly showed that they had no regard whatever for foreign interests and that they would be very happy if the Metro-Goldwyn-Mayer would withdraw from the German field. If by inflicting losses on the American company they could lead it to abandon the German field, they would from their point of view have done a good day's work. It is further interesting that the head of the Film Division of the Propaganda Ministry solemnly assured me that the German version had not yet been forbidden, when I had in my pocket a signed copy of the proposal of the meeting in the Ministry the day before, of which meeting he is chairman and at which the film had been formally forbidden. It is equally significant that when I asked him what objections there were to the German version of the film and if it was not because Max Baer

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was of Jewish origin, he replied that he did not know on what basis there were objections to the film and that he would have to examine the law and the regulations. The signed copy of the protocol of the previous day's meeting of which he was the chairman, and which I had in my pocket at the time, recited his statement that the film had to be forbidden on the ground that Max Baer is a Jew.

The foregoing actual incident is I believe a sufficiently clear example to bring out the statement made in this despatch that the higher authorities are not in a position in spite of what may be an understanding attitude on their part, to carry through their will. The Minister of Foreign Affairs, the Minister of Propaganda and Ministerialdirektor Dr. Greiner, would probably have permitted the German version of the film to run; but they are not in a position to go against the views and the action of the subordinates in the Ministry of Propaganda actually charged with the work. It is interesting in this connection to note that Dr. Goebbels, the Minister of Propaganda, in a speech before the principal people in the German film industry and those in the Government in control of the film industry, emphasized the necessity for increasing German film production. He closed his speech with the statement that as German film production would have to be brought to the point where it would be sufficient for the German market, "it is therefore not necessary and there is no further reason why film theatres in Germany should have any reason to look to foreign firms for the covering of their needs". This public statement of Dr. Goebbels

with

with respect to the film industry is only one of the many concrete instances which we have, showing that it is the intention of the authorities by whatever means at their disposal, to crowd out gradually foreign interests and foreign goods. Even if some of the higher authorities and responsible Ministers realize that this policy will eventually lead to reprisals and endless difficulties for Germany, it is clear that they cannot carry through their will against these secondary leaders who are absolutely determined to carry through their own views and who so far have been successful in doing so.

That this is a very real situation which business men have to deal with every day and a very concrete problem with far-reaching implications which our Government must consider in all dealings with the present Government in Germany, is indicated by another example which is of real importance. As the information concerning this incident has come to my attention through a very intimate personal contact, I shall not mention names. One of our most important manufacturing interests in the United States has a plant in Germany where it manufactures its product which is in competition with German goods of the same type in Germany. The principal German company manufacturing this type of equipment and which has been in very keen competition with the plant of the American company in Germany, has not been able to bring its own product up to the standard of that produced by the American company in Germany. For two years the American company has been in

touch



touch with the German company which I may say occupies even a more predominant and powerful situation in Germany than the parent American company does at home, to the end that arrangements may be arrived at by which the interests of the German company may be merged with the American. Progress was made on these negotiations and continued after the new Government came into power and a few days ago there was thorough agreement between the American and the German company to merge the two factories. The German owned German plant was to be abandoned and production concentrated in the American owned German plant, the German company assuming a minority interest in the American owned German company. As it involved the closing of a German plant and an association of a German with an American interest, the plan was submitted to the higher German authorities for their approval. Without going into detail, I may say that the arrangement was very much in the interests of Germany and the advantage of it to Germany was so obvious that it received the complete approval of the higher German authorities, including the personal economic advisor of the Chancellor who told the German firm to go ahead and sign the contracts. Just before the contract was to be signed, a smaller German plant in the same industry was able to reach the appropriate Ministry, and prominent and powerful members of the Party informed the Ministry that the contract could not be put through unless this firm was taken care of. Although it was clear to the Minister and his associates that the arrangement arrived at was

definitely

definitely and very considerably in the interests of German economy and that the interposition of this other firm was really in the form of blackmail, the question was raised by such powerful members of the Party that the Minister had to advise that a way be found to take care of this latter firm before the agreement was signed. The personalities involved in the agreement and in its approval were among the most important in Germany and who are supposed to be all-powerful in the present German authoritative State; and yet in so important a contract as this involving such definite advantages for Germany, they could not put it through because minor but Party members with a low number interposed these difficulties.

These instances are not isolated. They represent a situation with which I have had to come in contact ever since the new Government came into power. The officials of no other foreign country have had to have so much contact with the German authorities as we since March 5 of last year, in connection with the protection of interests, and it is necessary to say that the situation brought out in the two foregoing incidents is a very real and definite one which we and the representatives of other countries in Germany have had to deal with under the new Government; and as the incidents recited in this despatch have both taken place within the last ten days, it is a clear indication that the situation continues to subsist. The internal political and economic situation is such as to indicate that this condition will continue to exist as long as the German Government retains its present form

and



and composition. These secondary officials are definitely tied to a policy of decreasing Germany's imports of raw materials to a minimum, of practically shutting out from Germany all imports of manufactured goods and of following a consistent and persistent discriminatory action against foreign interests in Germany, capital or otherwise, which will lead to their elimination. That this may lead to retaliatory measures in other countries whose interests in Germany are affected, is a consideration which so far has had little weight with these secondary leaders, or at least with a very limited number of them.

Under these circumstances it is exceedingly difficult to see how we can have any assurance that any agreements which may be entered into will be carried out. The formal assurances of the German negotiators or of the German Government would not be enough under existing circumstances, for those who know the internal situation in Germany realize definitely that the Government is not in a position to carry out any action in the economic or industrial field against the will or wishes of the secondary leaders.

Respectfully yours,

George S. Messersmith,  
American Consul General.

Enclosure:  
Memorandum of conversation.

619/800

GSM:P

A true copy of  
the signed original.  
*E. W. [Signature]*