

837

Mischer

Extra

Vienna, January 29, 1937.

No. 1033

Subject: CONCLUSION OF AUSTRO-GERMAN TRADE
AGREEMENT ON JANUARY 29, 1937.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my confidential
despatches No. 949, of November 6, 1936, No. 943, of
December 17, 1936, and No. 1001 of December 29, 1936,
in which detailed information and background is given
concerning the negotiations which have been in progress
for renewed trade agreements between Austria and
Germany, and on the possibility of Austria's interest

for the

for the negotiation of a trade agreement with the United States under our Trade Agreements Program. I now have to inform the Department that on January 26, 1937, a new trade agreement between Austria and Germany was signed after exceedingly difficult and, under the circumstances, prolonged negotiations, which is designed to provide on a compensation basis for an increase of 45,000,000 schillings in Austria's exports to Germany in 1937 over those in 1936, and an increase in Germany's exports to Austria of approximately 40,000,000 schillings in 1937 over those in 1936. The agreement was signed on behalf of Austria by the Secretary of State for Foreign Affairs, Dr. Schmidt, and for Germany by the German Minister in Vienna, Herr von Papen. It is of a provisional nature and is intended to cover the trade relations of the two countries for 1937. It is to become effective on February 1, 1937.

Although the text of the agreement is not yet available and it is still too early, from the information to be had, to give a complete analysis of this agreement, it is possible already to make the following comment. The results which it has been possible to arrive at after these long and difficult negotiations are meager and unsatisfactory to both Austria and Germany. After the conclusion of the Austro-German accord of July 11, 1936, the negotiation of a trade agreement became a necessity, as both agricultural and industrial interests in Austria believed that the reestablishment of more

normal

normal political relations between the two states would result in increased markets in Germany for Austrian products. There was similar interest in Germany in the increased importation from Austria of agricultural products, which were very much needed. Conversations were started between the two countries almost immediately after the signature of the accord of July 11, 1936, which resulted, however, only in an agreement covering tourist travel and which brought practically no advantage to Austria. It was recognized at the outset that the chief difficulty during any negotiations that would take place would be the inability of Germany to set aside exchange for the payment of increased imports from Austria, and the Austrian Government was not inclined to finance increased exports in any direction at the expense of the more favorable Austrian financial position that has been reached after painful effort.

The negotiations for the actual trade agreement were started after a preliminary exchange of views and information had taken place, in December, 1936. They were interrupted just before the Christmas holidays, and were resumed on January 11, 1937. The agreement signed on January 20, 1937, represents, therefore, the results of an exchange of views, conversations, and actual negotiations that have been in progress almost continuously since immediately after July 11, 1936.

1/ There is transmitted herewith (Enclosure 1) a translation of the official communiqué, which was

issued

issued immediately after the signature of the agreement. While the information which it contains and which has so far appeared in the press is not very specific, the general lines of the agreement are that Germany will take during the remainder of 1937 from Austria agricultural products, wood, and industrial products to the value of 45,000,000 schillings in excess of the 1936 figures. It is hoped that the export of agricultural products will increase during the remainder of the year by the value of 7,500,000 schillings - the products in question being cattle for slaughter and breeding purposes, horses, butter, cheese, milk, and cream. The increase in the exportation of wood over 1936 for the remainder of the year is hoped to reach 10,000,000 schillings. These wood products consist principally of sawn pine timber, railway sleepers, round timber, and pulp wood. An increase in industrial products to the value of 10,000,000 schillings is anticipated. There is no information yet as to what articles will comprise the remainder of the 45,000,000 schillings. The 40,000,000 schillings increased imports by Austria from Germany during the remainder of 1937 are to be made up of 15,000,000 schillings to be set aside for tourist travel from Germany to Austria, and by the purchase of coal, coke, and industrial articles, principally electrical equipment.

The official Austrian trade figures for 1936 show total imports from all origins to the value of 1,347,195,000 schillings, and total exports for all
destinations

destinations of 252,534,000 schillings. As the volume of Austrian trade with Germany is greater than that with any other country, it will be apparent that even if Austria's imports from Germany are increased by 40,000,000 this year under this agreement and her exports increased by 42,000,000 schillings, the amount involved is relatively small considering the total volume of Austria's export trade and the fact that the agreement has been made with her most important customer. It is for this reason that the results of the negotiations must be considered as exceedingly meager.

There is good reason to believe that during the course of the negotiations in December, 1936, it was already clear that the results which could be arrived at would be insignificant and there was question of indefinite postponement of the negotiations until well into the beginning of 1937. The desire of the German negotiators to secure at least some Austrian agricultural products, so badly needed in Germany, and the necessity for satisfying to a degree the pressure from agricultural groups in Austria led to the decision for resumption of the negotiations on January 11, 1937. The negotiations were undoubtedly conducted on both sides with a sincere desire to enlarge the mutual volume of trade, but the difficulties in the way of arriving at worthwhile results were too great. Germany was prepared to take practically any agricultural products Austria could export, and was willing to take the entire

Austrian

Austrian surplus. She was, however, not prepared to set aside any exchange for such imports and insisted on paying entirely in goods. As has been pointed out in previous despatches, Austria could take only limited quantities of German coal because of her existing agreements with Czechoslovakia and Poland. She was not disposed to take armament material because she distrusted the quality of the material which would be delivered and did not wish to make her army dependent on German supplies. Further, on account of the considerable frozen assets which Austria has in Italy, it is more to her advantage to secure such armament supplies from that country. It may also be remarked here that Austria has no disposition to commit on the scale which large importations of this kind would involve, and such importations would have been a heavy burden on the Austrian treasury. Perhaps one of the principal difficulties which developed on the Austrian side was the changed attitude of Austrian industrialists. They had believed that a trade agreement would bring a revival of Austrian industry through the exportation of increased Austrian manufactured products to Germany. When the negotiations actually started and concrete details were discussed, the Austrian industrialists learned that there was not so much question of a possibility of increased Austrian exports of manufactured goods to Germany as of very considerable increased exports of such goods from Germany to Austria. Owing to the assistance of

VARICUE

various kinds given by the German Government to German manufacturers, it was found that Austrian industry could not compete with many lines which Germany wished to export. Towards the end of the negotiations, therefore, the pressure on the Austrian side came only from the agricultural interests.

As has been shown in the reports of this Legation during the past few years, there has been a steady, if slow, improvement in the Austrian industrial and financial situation. It is reflected in increased tax returns and in generally improved business. It is realized, however, that the economic and financial structure of the country in the present state of Europe, and particularly of Southeastern Europe, is in a delicate position, which may easily and quickly be adversely affected by such readjustment which would be necessary through a large influx of German goods or through considerable increased exports to Germany for which payment would not be received or which would be financed by the state. The Austrian negotiators, therefore, were obliged to proceed with great caution. The unfortunate experience which most of the Southeastern European states have had in their clearing agreements with Germany was a great deterrent to the Austrian negotiators. The experience of Hungary, and more recently of Yugoslavia, which have been obliged to restrict their agricultural exports to Germany on account of the increasing debit balance which Germany was piling up, was very much in the mind of the Austrian Government.

- B -

Very soon after the resumption of the negotiations on January 11th, Dr. Glodius stated confidentially to friends here that, although the negotiations would be continued and some results reached, it was quite obvious that if a total increase of 20,000,000 schillings a year could be arrived at, this would be the maximum. I had a conversation with the Secretary of State for Foreign Affairs on January 20th, who stated that it was almost impossible to arrive at anything during the negotiations, as the Germans were not prepared to pay, probably because they could not. He was much disturbed, he said, over the form in which the Austro-German trade was already developing. Germany was taking more and more raw materials and agricultural products from Austria, and increasing her exports of finished articles to Austria. The trade relations between the two countries were developing in a form damaging to Austria. Some agreement would have to be made, but he was going to see that the Austrian Government would have full control over this trade. The Austrian Government would insist on a provision in the trade agreement which would enable it to control the articles and quantities which went from Austria to Germany, and which came from Germany into Austria. This was a point on which he would insist. There is transmitted herewith a memorandum of my conversation with him (Enclosure B).

In usually well informed circles in Vienna and among diplomatic observers here the comparatively negative results of the negotiations are not a

EXHIBIT

surprise and are looked upon with certain satisfaction. It is believed in these quarters that no other results would have been compatible with Austrian interests at this time, desirable as the increase in the trade relations between the two states is under normal conditions. The manner in which the Secretary of State for Foreign Affairs, Dr. Schmidt, conducted these negotiations for the Chancellor and for the Austrian Government will strengthen his position and dispose of those rumors to the effect that he was so favorably inclined towards Germany as to sacrifice Austrian interests by giving way to German pressure. That this pressure was very real is unquestionable, but, on the other hand, it is due to the German negotiators to state that they showed an understanding appreciation of the Austrian attitude. From the political point of view the result is significant, as it shows that the Austrian Government is determined to maintain its stand of protecting Austrian interests against pressure from any direction. This is in marked contrast to the situation immediately after July 11, 1936, when, in certain countries and also by certain diplomatic observers here, it was believed that this accord marked the beginning of political and economic subservience to Germany.

An interesting feature of the trade agreement is that a permanent committee is set up in Germany and in Austria to consider questions arising under the agreement. The agreement has assumed the form of an expansion of the present clearing agreement between the two countries, but the committees are

important

important, as it is through the Austrian committee that the Austrian Government will be able to exercise that control over imports and exports to Germany which the Secretary of State for Foreign Affairs considers so important, as reported in this despatch and in the appended memorandum.

There is a general belief in informed circles in Vienna that the total volume of increased trade envisaged during 1937 by this agreement will not be reached, and that the maximum increase will probably be around 20,000,000 schillings. There is much reason to believe that this is likely. The increased trade is to be on a compensation basis, and it is a question whether the Austrian market will be able to absorb the increased quantities of electrical equipment and manufactured goods which Germany hopes to export. Much will depend upon whether the Austrian Government will float an internal loan this year, which it is now considering and the proceeds of which are to be used for public works - including the electrification of the railway line between Vienna and Salzburg. While there will be pressure from Germany to import Austrian agricultural products, principally butter and eggs, and similar pressure from Austrian agricultural interests to export these products, it is the intention of the Austrian Government to keep the exports on a level with the imports which can be absorbed.

In connection with this trade agreement there is an agreement covering the exchange of films and the payment of arrears due to Austrian producers for films

ALM

shown in Germany, as well as an arrangement for the payment by Germany of sums due authors. These arrangements, which are being disregarded largely by the general public, may in some respects prove to be the most important part of the trade agreement. Austrian films have been more popular in Germany than German films in Austria, and there is owing, therefore, to Austrian producers a considerable balance in marks that the Austrian films have earned in Germany. Similarly, the works of Austrian authors and playwrights have had much larger earnings in Germany than those of Germans in Austria. This situation in the film and literary circles, considering the relative populations of the two countries of respectively sixty-seven millions and six and a half millions, is a singular and interesting commentary on the state of culture in the two countries. The agreement with respect to royalties due to authors and playwrights is of no interest to the United States, but that which affects the film industry is of primary importance to us and has been separately covered, because of its importance, in the Legation's confidential despatch No. 1034 of January 29, 1937.

The press comments on this trade agreement have been unusually restricted, reserved, and unenthusiastic. That the results which it has been possible to achieve are not greater will not strengthen any popular sympathy with which the accord of July 11, 1936, for the improvement in the relations between the two countries, may be viewed.

As the Department is aware through the despatches

referred to

837

- 12 -

referred to at the outset of this report, there was some possibility that proposals put forward during these negotiations by Germany might have worked injury to our trade, principally in raw materials, and that I took the steps detailed to the Department to protect our interests. Although the complete text of the agreement is not yet available, from the information which the Legation has, it would appear that none of these German proposals were favorably acted upon and that the way remains open for eventual negotiation by Austria of a trade agreement with us. As it is intended that there shall be no further negotiations between Germany and Austria on this subject during 1937, the position in this respect may be considered satisfactory.

Respectfully yours,

GSM/imp.

George S. Messersmith.

File No. 681

Enclosures:

1. Translation of communiqué;
2. Memorandum.