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AMERICAN CONSULATE GENERAL,
Berlin, Germany, March 22, 1934.

SUBJECT: Considerations in connection with 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 inform the Department that on my return to my post after leave of absence in the United States, the Ambassador, prior to his departure, brought to my attention the desire of the German Government to send a mission to the United States to negotiate a trade agreement as soon as possible after Congress may have passed the legislation now pending before it, authorizing the President to make such agreements. We had the opportunity prior to his departure on leave for the United States, to discuss some of the considerations bearing on such negotiations and the Ambassador was of the opinion that it would be desirable for me to have conversations in the near future with some of the higher officials of the German Government with whom I have been in contact, as certain background might be of interest to them. As only a little over a week has elapsed since I returned to duty and as the ranking officers of the German Government to whom it would be interesting to talk in connection with probable negotiations have been very much occupied and almost impossible to see, I have had the opportunity

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up to the present time only of talking with Staats-
secretar Dr. Posse in the Ministry of Commerce and
will refer to our conversation in this despatch. I
believe, however, that it may be of interest to give
to the Department some of the impressions which I re-
ceived since my return.

The general situation in the country does not appear
to have improved and while there are outward indications
of order, stability and increased activity in industry, I
feel that the basic situation is more uncertain and
presents greater elements of danger than in the beginning
of December when I went to the United States. In the
political field it is obvious that Germany has made no
progress in placating public opinion abroad or in further-
ing her policy. On the contrary the developments with
respect to Austria represent a real setback. In the
industrial field there has undoubtedly been increased
activity involving greater employment, but consumption
of goods in Germany itself has gone down due to what is an
apparent constantly decreasing buying power of the masses.
Wages have gone down rather than up and prices have had
a tendency to slowly increase rather than to remain stable
or go down. It is generally conceded among those who
know, that the increased activity in industry is due to
artificial stimulus brought about by Party measures
requiring the wearing of uniforms, as well as because of
real preparations for rearmament. Concrete evidence
comes to me almost daily indicating that a very

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considerable part of the stimulus which has been given to industry is through the production of actual war materials or to the production of machinery and equipment essential for the manufacture of such war materials.

In the financial field there is a feeling in informed circles that the country is up against a stone wall. The unfavorable trade balance of 22 millions in January and of 35 millions in February it is believed will be followed by balances for March and following months which may show even a more unfavorable position. The exchange position is undoubtedly serious. The position of the Reichsbank is weaker. The program for rearmament upon which the Government seems definitely determined, involves the importation of certain raw materials which cannot be financed through the present rate of exports. The country is trying to carry through a program which involves greater importations of raw materials and is at the same time faced by decreased sales of its goods abroad. The present tempo of the industrial machine cannot be kept up without a certain flow of raw materials which under existing conditions there seems to be no way of paying for.

Well-informed persons state that imports into the United States from Germany will show a very considerable drop over former months in March and that decreased purchases for American account in December and January will be reflected in May and June figures published here in Germany. In spite of the noise made over the

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Leipzig Fair which has just closed, it is quite clear that the foreign business done was disappointing. Although spokesmen of the Government and of the Party make public and private statements to the effect that National Socialism and the new Government are finding greater understanding abroad, they are beginning to realize in fact that Germany is faced by practically a world block of opinion which is seriously affecting its export markets. The need of Germany for exports has become the most important topic of conversation and the Government is undoubtedly giving this aspect of Germany's problem very real consideration as recent events have shown that the exchange position of the country is becoming desperate and that the whole program of the National Socialist Party will be endangered if some relief cannot be found.

Radical action of almost any kind may be expected from time to time in an effort to improve the exchange position. Completely without warning some days ago, as the Department has been informed by the Embassy, the Government fixed the amount of American lard which can come in in a year at 25,643 metric tons, while in 1933 57,000 tons were imported from the United States and 78,000 tons in 1932. Orders have been issued by the Party, countermanding the original instructions, that every member of certain organizations such as the Labor Front, must immediately provide himself with a uniform. The order requiring uniforms was a splendid move to help

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the textile industry, but the importations of wool involved staggered officials of the Government and of the Party when they realized the consequences of their action on the exchange situation. Mr. Schmitt, the Minister of Commerce, and Dr. Schacht, President of the Reichsbank, have made the situation very clear in inner circles of the Government and although these two are not in entire agreement in matters of policy, they do represent a conservative and restraining element to which the Party finds itself forced to listen. It seems to be quite well substantiated that Mr. Schmitt insisted on giving up his post as Minister of Commerce some time ago, on the ground that it was absolutely impossible for him to continue without greater authority and where he was hampered on every side by Party officials and officers of the Government who refused to recognize any authority but their own. Although Mr. Schmitt is still not popular in many Party circles, he was kept in his position as his leaving the Government at this time might have been the first crack in the structure causing it to crumble. Measures such as the arbitrary reduction of the American lard quota may be expected from time to time and at any time as there is every reason to believe that the exchange position is serious and requires radical action on the part of the Government.

The foregoing background may be of interest to the Department as explaining partially the attitude taken by Dr. Schacht in his speech before the American Chamber

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of Commerce in Berlin a few days ago. Without in any degree being in agreement with the statements made by Dr. Schacht, it is quite apparent that he is deeply concerned by the financial situation, and when he referred in his speech to the almost desperate situation of the Reichsbank and of the exchange position of the country, he was, I believe, entirely frank and correct. He failed, however, to bring out or to take any account of the fact that it was the rapid repatriation of German bonds abroad at bargain prices that had considerable influence upon this exchange position.

The interest in the measure now before Congress authorizing the President to make certain trade agreements with other countries, has been extraordinarily keen in Germany, as the Department is aware, and the foregoing brief resumé of certain conditions here is the background of this interest. In talking with Staatssecretar Dr. Posse of the Ministry of Commerce yesterday, he expressed keen interest as to when this legislation might become effective. He showed real disappointment when I said that there was no certainty as to when the measure would be enacted although there was every probability that these powers would be given to the President. He said that for Germany the situation was acute and that such delays were serious. As the German Government is undoubtedly placing great hopes on such probable negotiations with us, I thought it advisable and prudent to tell Dr. Posse that even when such a measure was passed

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it was not an indication that the President would be prepared to begin negotiations at once. I said that while I felt sure that once such a measure was passed our Government would also wish without unnecessary delays to begin conversations with certain countries, it would undoubtedly be necessary for the various departments of our Government such as State, Agriculture, Commerce and Treasury, to make careful studies of certain problems and to complete preparatory work before they would be prepared to talk in an effective way with a mission from another country. I pointed out that while such preparatory studies were probably already under way, to a degree at least in anticipation of the passage of the bill, the complexity of the problems which would arise was such that it was different for practically every country with which we might enter into conversations. I took the liberty of pointing out these considerations to him in view of the obvious eagerness on the part of the German Government to begin negotiations, and to counteract the impression which he seemed to entertain that the departure of a mission to the United States could be hurried by pressure on their part.

For the Department's information I may say that Dr. Posse stated that the German Ambassador in Washington had already been requested to ask the Secretary of State that Germany be one of the first countries with which we entered into negotiations. I informed him that so far as I knew the Embassy and the Consulate General had had

no reaction from the Department as to such a suggestion which might have been made by the German Ambassador; but I pointed out that merely as a personal observation I might say that this might prove difficult as it was obvious that the conversations with a country like Germany where the range of articles and interests covered was so wide, might require greater time in preparation on our part.

I venture to say that in my opinion it would be extremely undesirable for a German mission to proceed to the United States until our own plans are fairly well completed and until major questions of policy which will guide us in the making of an agreement with Germany have been decided upon. I think it is fairly clear that the German mission would leave with quite definite instructions and propositions, and so far as I am able to see now, I doubt whether the propositions which they would likely make could be accepted by us or form a basis of negotiation to which a favorable outcome can be expected. It is fairly clear that Dr. Schacht is of the opinion that we will be tempted by firm offers to take certain raw materials in fixed quantities and at fixed prices for a period of years. His principal objective within the limits of the powers he can exercise under the present Government will be to use so far as we are concerned, the dollar exchange available for the purchase of raw materials. It would seem that he hopes that our Government is so definitely oriented in relieving the agricultural situation

situation at home that it will definitely favor the exportation of agricultural products. The great difficulty that I foresee in American-German negotiations is that the German propositions will largely cover the importation of raw materials in compensation for which we shall grant certain advantages to German manufactured goods. If, as Dr. Schacht and certain German bankers seem to believe, the future trade relations between the United States and Germany will for some time have to be on a balanced and rationed basis, it seems fairly clear that they will wish to confine practically all German importations from the United States to raw materials and semi-manufactured goods, while the countervalue is to be taken by us in German manufactured goods under favored conditions. It is true that because of the discriminatory action which has been taken against American goods in Germany since the new Government came into power, our exports of manufactured goods to Germany have greatly decreased. Yet there are still many well-established lines of manufactured goods which Germany is buying from us and will continue to buy a certain quantity of even if there is no new agreement. Certain of the raw materials which she wishes to cover under an agreement she would have to buy from us in fair quantities whether there is an agreement or not as long as there is an exchange or credit upon which she can secure them. It would seem that Germany has comparatively little which she wishes to offer and has a great deal to ask. So far as I can gather, the propositions which she

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has to make may offer little advantage to us so far as raw materials are concerned and would offer further disadvantageous treatment for our manufactured goods. I do not wish to give the impression that I have discussed either with Dr. Schacht or other representatives of the German Government even in the most general lines the propositions which they have in mind, for I have not yet had the opportunity to do so; but in the brief conversational exchange which I have had with Dr. Schacht and with several German bankers who realize the difficulties of the situation, I gather that their emphasis will be on raw materials. I am merely taking the liberty of presenting this information as it may fit in with more definite indications which the Department may have already received.

In its confidential despatch No. 571 of February 23, 1934, on German discrimination against American trade and possible methods of dealing therewith, the Embassy has brought to the attention of the Department important factors which from our point of view will be given, I am sure, primary consideration in any negotiations with the German Government. In this despatch and its enclosures, and in the despatches of the Embassy and of the Consulate General referred to in the despatch, information is given as to the discrimination which has been and is taking place against American goods in Germany. This discrimination is very real and effective and is continuing and in my opinion will continue for some time. Since my return the Deutsche Sinclair Petroleum G.m.b.H., an American-owned

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German company distributing gasoline in Germany, has brought to our attention that the Government is planning to exercise complete control over the distribution of motor fuels in Germany and through what amounts to Government intervention is arbitrarily planning to cut the quota of this company from one and one-half per cent under the existing cartel, to half of one per cent. If this is done it is quite clear that the Sinclair company will not be able to earn anything on its investment, at least not sufficient to enable it to continue operations except at a loss and this will mean that the company will have to go out of business here and its entire investment of 8 million marks here, which was made in good faith, be destroyed. I have brought this case to the attention of the Ministry of Commerce within the last few days and a memorandum covering my conversation with Dr. Posse is transmitted herewith (enclosure No. 1).

The various increases in the tariff on office equipment, the law of June 1, 1933 and the discriminatory measures of the Party and of German manufacturers which have not been adequately stopped, are threatening to destroy an investment of some 35 million marks which American office equipment companies have made in various forms in Germany. I left a memorandum on this subject with Dr. Posse yesterday and am enclosing a memorandum of my conversation in this respect (enclosure No. 2).

Although the higher officers of the Ministry of Commerce and the Foreign Office and certain other more

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conservative and understanding officials of the Government and the Party are against these discriminatory measures against American and foreign firms, the discrimination in practice continues. Among the secondary officials of the Party who are the ones dealing directly with such matters, there is still almost complete disregard of foreign interests and foreign opinion. It is still not possible for the higher officials of the Government to carry through their will as against these secondary leaders in many matters. That this discrimination exists and that it is likely to continue to exist is, I believe, a factor which we must keep in mind. Our Treaty of Commerce, Friendship and Consular Rights has not been sufficient under the existing circumstances in Germany to guarantee to American firms and American trade in Germany under the new Government here, the reciprocal rights and privileges which are freely enjoyed by German firms and German interests in the United States. Our trade with Germany has been constantly shrinking due to acts of the Government in Germany and due to discriminatory measures encouraged and preached by the Party. The capital value of our investments in Germany is from all the reliable information I can get steadily shrinking and a good part threatened with entire extinction. This, however, does not apply to American firms actually manufacturing the whole of their product in Germany to the same degree. Some of these firms have been practically uninjured. Others have suffered but not to a degree which affects their earning capacity or capital

capital seriously. Sales and distributing organizations, however, which have been built up at considerable expense and in entirely good faith, have been very greatly injured. The German Government has not since March 5, 1933 given to American commercial interests in Germany the fully fair treatment and the protection guaranteed under our Treaty. It is a question whether the Government is now in a position to give this protection. This opens the question as to whether any new agreements which might be entered into would give us the guarantees which we may reasonably expect not only for our existing interests in Germany, but that the new arrangements entered into will be fully met on the German side and not hampered by Party measures and discriminatory action in the country.

While the personnel of the German mission has I believe not been definitely decided upon, those who have already been mentioned, like Dr. Fosse, Dr. Ritter and Dr. Davidsen, are fully familiar with the way in which American interests have suffered in Germany during the past twelve months. They or any persons who may comprise the mission will undoubtedly contend that the Government is against such practices and is doing everything to stop them, but they will at the same time realize, as we must, that the action which has been taken to protect our commercial interests has not been as energetic and as thorough as the circumstances have required. The fact is that the National Socialist Party is in reality in favor

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of such discriminatory action against foreign interests. For obvious reasons they must take publicly and with respect to the representatives of other countries, a different attitude; but in the actual speeches made, which in most cases are not accurately reported in the press in Germany, such discriminatory action has been directly and indirectly encouraged. This is a situation, I believe, which we must take thoroughly into account.

As I have already said in this despatch, I have no definite indications from any German authorities to the effect that their stress will be entirely on German importations of raw materials, but judging from the emphasis in the press in the last weeks on raw materials and from the conversations which I have had with well-informed persons so far, I feel that it is fairly clear that in the negotiations which Germany wishes to undertake with us her principal object will be to assure herself of certain raw materials for which we are to take German manufactured goods to an equal value. If it is true that American purchases of German manufactured goods are still constantly declining, and I think there is reason to believe that this is so, it is doubtful if we could absorb the quantity of manufactured goods which we would have to take. By the control which Germany is already exercising over certain raw materials and by that which she is planning, there is no doubt but that she could keep any agreement which she may enter into to take certain agricultural and mineral products, for through the Reichsbank and the monopolies

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and the control established or to be established, the German Government is in a position to control purchases. On the other hand we in the United States do not have and are not likely to have any form of control over business through which the Government can direct private purchasers to buy manufactured goods in a particular market. As our importers are showing a tendency to restrict their purchases in Germany to a minimum, it would be exceedingly difficult for our Government to give any guarantees that German manufactured goods in a given quantity will be absorbed by our market. Special tariff schedules for particular goods from Germany, which we might establish, might stimulate imports; but even the establishment of such schedules might not be sufficient. It is probably doubtful whether we would be in a position to give certain guarantees for importations of manufactured goods which the German negotiators would undoubtedly be prepared to give for American raw materials.

Another disturbing factor which is important background for any negotiations, is the fact that the anti-Jewish measures in Germany have by no means been stopped. While the number of new measures against Jews in recent months has been few, the existing decrees are sufficient to gradually eliminate the Jews from the social, economic and financial structure of the country. In the economic and financial field these measures are being carried through constantly with implacability. The resentment which informed public opinion in other countries feels

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with respect to this discriminatory action in Germany seems to be bound to continue to have its effect on German goods abroad.

German economy is faced by three major problems at this time, the unfavorable exchange position, the need for raw materials and the necessity for increased export markets for her manufactured goods. The Department is aware of the so-called "Grosswirtschaftsraum" policy of the German Government. The political and economic aims of the Government in this respect are fully coordinated and their end is to make Germany so far as possible self-sufficient and independent of raw materials from the outside. Through the operation of the fat monopoly it is possible to see what success she has already had within her present territorial limits, in decreasing imports of fats. Scientific research is being intensified to find means through which Germany may further decrease imports of raw materials. Further commodities are likely to be placed on a monopoly or completely controlled basis. I am very confidentially informed that copper will shortly be placed on a monopoly basis. This is an important product in Germany's rearmament program and the Government is now studying very carefully a complete control over copper. The plans are not yet complete but all copper producing and refining companies in Germany are to be brought together into one concern. The price of copper is to be fixed for the interior of Germany to remain stable for a given month and to be changed once every month by the monopoly.

monopoly. All sales within Germany are to be made by the new centralized concern and all importations made or controlled through it.

I believe that another consideration which we shall have to bear in mind is that so far as possible Germany will wish to take only from us such agricultural or raw materials which she cannot buy in neighboring countries. She too wishes to undertake negotiations of a bilateral nature with other countries and her bargaining power with her neighbors to whom she wants to sell manufactured goods will largely depend upon her capacity to take from them certain agricultural products. In Germany's negotiations with us this consideration will play an important part.

I have taken the liberty to transmit the foregoing considerations to the Department as of possible interest for background purposes. I believe that it would be advisable for us to enter into negotiations with Germany when our Government may feel itself prepared to do so. I do not believe that it would be advisable to permit a German mission to come to the United States until from our side we feel definitely prepared to receive such a mission. The Germans place such great hopes in, and have such great expectations from such a mission, and there are such possibilities of difficulty in the negotiations, that a failure to arrive at anything would be much more serious for our relations than if no negotiations at all were undertaken. My principal fear is that they may have so little to offer and so much to ask for, that the

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negotiations from our side will be very difficult taking into account all the existing circumstances. Germany is a country of 65 million worth while people, which I believe will always prove to be one of the most important factors in international exchange, and the consuming power of its people will continue to have for our economy a real importance. No opportunity, therefore, must be let pass by which presents any reasonable hope of success in improving our trade relations with this large consuming power. In this despatch I have not wished to strike a pessimistic tone, but I thought it advisable to emphasize certain considerations which I believe we shall have to keep in mind in any negotiations which we undertake with Germany.

Respectfully yours,

George S. Messersmith,
American Consul General.

Enclosures:

- 1.) Memoranda of conversations
- 2.) with Dr. Posse of the
- 3.) Ministry of Commerce.

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