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Vienna, November 10, 1936.

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No. 960.

SUBJECT: DEVELOPMENTS IN THE INTERNAL AND EXTERNAL
SITUATION.

CONFIDENTIAL.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my confidential despatch No. 945, of November 2, 1936, reporting developments in the Austrian internal and external situation, and to submit the following further information.

The conference in Vienna between the Foreign Ministers of the Nine Protocol States which took place on November 11 and 12, completely preoccupied the Austrian Government since I addressed the above mentioned despatch to the Department

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and has been the object of international attention because of the importance which had been given to it in the Italian and in the Austrian press until shortly before the meeting. In previous despatches it was reported that it was apparently the intention of the Italian Government to use the Vienna Conference as a bridge to closer economic and eventually more intimate political relations between the Rome Protocol States and the Little Entente. The uncertainty as to the actual nature of the conversations which Ciano had in Berlin and in Berthelsgaden recently, as well as the speech of Mussolini in Milan shortly thereafter in which he emphasized the Hungarian revisionist claims and made strong overtures to Yugoslavia practically destroyed any possibility of the Vienna Conference's influencing developments in the Danubian Basin in a constructive way.

The Vienna Conference met under this cloud of fear and distrust and the official communiqué which was published after the close of the Conference on November 12 shows nothing new and none of the surprises which were expected. I have in my despatch No. 557, of November 14, 1936, reported fully on the Vienna Conference and its results so that further reference is not necessary to it here. It is sufficient to say that the Conference has brought nothing new and that the hopes for constructive results from it have been disappointed. The most important statement in the official communiqué is the emphasis given to the policy already laid down in the supplementary protocol of March 1935 to the Rome Protocols

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of extending the relations of the Rome Protocol States with other states through bi-lateral pacts. In other words there are to be no collective pacts between the Rome Protocol States and the Little Entente.

Now that the Vienna Conference is over the announced visit of the Secretary of State for Foreign Affairs, Dr. Schmidt, to Berlin will take place sometime before the end of November and it is expected that the German Foreign Minister, Baron von Neurath, will return this visit in Vienna without much delay. This visit of Dr. Schmidt to Berlin will be the first visit of a member of the Austrian Cabinet to Germany for some years and it is believed that the negotiations of a new Austro-German trade agreement will begin during his visit or shortly thereafter. These negotiations are to continue the more or less abortive efforts to arrive at a trade agreement initiated immediately after the signature of the accord of July 11, 1933, between Vienna and Berlin. As these negotiations are in some respects the most important matter confronting the Austrian Government, and as their outcome will have considerable significance not only so far as Austro-German relations are concerned, but also trends in the situation in Central and Southeastern Europe, I have covered the information so far available concerning these negotiations in my confidential despatch No. 233, of November 14, 1933. It is necessary here to say only that the Austrian Government approaches these negotiations very much in the same spirit as it approached them in July - that is, with the sincere desire to arrive at agreements

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increasing the exchange of goods between the two countries, but determined that increased exports to Germany should not be financed at the expense of the Austrian treasury and of the more favorable financial situation of the country which has been so painfully brought about. On the other hand the Austrian Government expects increased pressure from the German Government and in some ways its resistance to this pressure is reduced. The difficulties in the way of arriving at any commercial agreement which will satisfy Austria or Germany are very great and in Austria there is already very restrained optimism as to the outcome of the negotiations. It seems unquestionable that some agreement will be made, and from the present prospects it is likely that Germany will derive more benefit from it than Austria.

While the Austrian internal situation has held up very well and has remained entirely quiet, there is a major development which I believe it is important to bring to the attention of the Department and this is a perceptible, if slow, increase of German infiltration. This is a difficult situation to convey to the Department at this time, for it must not be magnified nor minimized. On the other hand it is impossible as yet to state whether this infiltration will continue or whether it will be arrested before it becomes dangerous.

As background it may be said that the situation in Austria and throughout all of Central and Southeastern Europe has been resting heavily under the influence of the uncertainty over Ciano's visit to Berlin and Berthrongdon and of Mussolini's

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Italian speech. The Italian position in Southeastern Europe which had become stronger, is considered as weaker, with a corresponding strengthening of the external German position. This has reflected itself in a slight weakening of the Austrian position vis à vis Germany.

I am inclined to believe that certain stress must be taken to indicate the way the wind is blowing and I shall endeavor to present a few of them. When Mr. Salata, the new Italian Minister to Austria, came to make his first call on me, which was just after the Berlin visit of Ciano, we had a very amiable conversation on generalities and he then asked me what I thought of the Austrian internal position. I told him that I considered the position on the whole quite satisfactory, but that one must look with concern on the failure of the police in certain parts of the country, for example at Graz and Leoben, to restrain National Socialist activities forbidden by the Government. Mr. Salata showed a decided tendency to gloss over this attitude on a part of the provincial police and this was so contrary to the previous Italian attitude that it could not but awaken the thought that as a result of the closer Italian-German cooperation Italy was no longer giving the Austrian Government the same support as formerly in keeping down National Socialist activities.

I can say here parenthetically that during the visit of Mr. Ciano in Vienna for the Vienna Conference I am informed on good authority that Chancellor Schuschnigg brought to his attention the increased German pressure on Vienna and the increased difficulty of the Austrian Government in resisting it. Mr. Ciano is said to have informed the Chancellor that Austria continued to have the same active and full support of Italy in the maintenance of its position.

Some days after this conversation with the Italian Minister, I attended, as an act of courtesy, a lecture given by Count Hagen, the President of the Statensret and of the Riksdag, who is quite a Nationalist, formerly a leading member of the Hohenstaufen, and a man whom I consider very sound. He was speaking to a group of important business men and opened his act speech with some improvised remarks in which he was particularly friendly to the French Minister, who was present, and said that he had gotten the inspiration for his speech from him. He referred in the most flattering way to the French Minister and to a lecture which he had recently given in Vienna on French culture. Count Hagen then started to read his act speech which he began by saying, "As an Austrian and a German", (als Oesterreicher und Deutscher) and then entered into a defense of the authoritarian system which enabled him to make even if very directly, some remarks which could be interpreted as friendly and appreciative towards what had happened in Germany in the last few years. While the term "als Oesterreicher und Deutscher" does not convey to an Austrian what it may convey to a foreigner, it was striking that Count Hagen should find it necessary to use this form of expression when it would have been much stronger for him to merely say "as an Austrian".

I regret to say that I had the distinct impression that Count Hagen knew what he was saying and also realized the impression that it would make on his hearers. One could not escape the impression that this beginning to his lecture and what he indirectly said therein was a distinct effort "to

get on the train". And coming from a man like Count Dapoz the occupies such important positions in the Government, it had a distinct tendency to convey to the important business men present the feeling that among the higher officers of the Government there was more of a leaning toward Germany.

A few days afterwards, on November 7, General Claise-Dorstenau, who was taken into the Cabinet after the accord of July 11 as Minister without portfolio and who during the last Cabinet reorganization was made Minister of the Interior, took over the Ministry and in the usual speech to the staff said that "As the 11th of July had created an emergency situation in the external relations of Austria and put an end to a bitterly unusual development, so now it was determined will of all concerned to go forward in the same direction internally. To this task it was essential that all persons concerned should give their cooperation and in the Ministry of the Interior, under his leadership, this would be a matter of the heart". What was most significant was that all the Vienna papers reporting Claise-Dorstenau's speech left out this sentence with the exception of the TAGESBLATT in its issue of November 8. In this connection it may be said that although Claise-Dorstenau has been given the Ministry of the Interior, the most important function of this Ministry - the supervision of the police and gendarmerie - has been put into the hands of a new Ministry of Security, under Mr. Hausdörfer-Stinner. The Department will recall that in a previous despatch I have reported that the Secretary of State for Foreign Affairs informed us that Claise-Dorstenau had been given this Ministry "so that he would have something to do and be kept from talking with all sorts of people throughout the country".

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I have in a previous despatch reported that in view of the increased work falling on the Austrian Foreign Office a reorganization is to be undertaken in it with the objective of strengthening it. It is quite true, as I have previously reported, that the work of the Austrian Foreign Office has greatly increased. As in the case of most governments, this branch of the Government has suffered from inadequate appropriations. Most of the officials of the Foreign Office work until late in the evening and often until late in the night. I am now informed that it is the intention of the Chancellor in the not distant future to give the Secretary of State for Foreign Affairs full rank as Minister. The Secretary General, Mr. Poter, who is quite advanced in years, is to continue, but to be charged mostly with administrative functions. Two political divisions are to be set up. The one which includes Western Europe will continue to be headed by Mr. Bartholomae whose friendly and sympathetic attitude toward the Western Powers is well known. The other division, which will include Germany and Southeastern Europe, will be headed by the present Austrian Minister to Warsaw who is to return shortly to Vienna for that purpose. Certain informed observers here are inclined to see in this reorganization another strengthening the way the wind is blowing. It is well known that the German Foreign Office and the German Legation here consider the Austrian Foreign Office as unfriendly and putting obstacles in the way of better Austro-German relations. There is a tendency to read into this reorganization of the Austrian

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Foreign Office at least a certain amount of German pressure. The Austrian Minister to Warsaw, who will head the section having to do with Germany, will undoubtedly be acceptable to the German Foreign Office and to the German Legation here, but I have not been able to get any confirmation of the reports that he is so friendly to Germany as not to be a good Austrian. On the whole, however, I believe it is safe to say that while this reorganization of the Austrian Foreign Office has been necessary to strengthen it and to reduce the pressure on its personnel, there was one consideration by the Government in making the reorganization that the set-up would be more favorably viewed by Germany.

Another story which may show even more definitely the trend is what I believe to be the well substantiated report that Dr. Tauschitz, the Austrian Minister to Germany, is to be recalled, as well as the Austrian Press Attaché in Berlin. Dr. Tauschitz is not a career member of the Austrian diplomatic service and was given this position several years ago as a reward for political services. He has proved to be a good Minister and is generally considered to have been very objective. There have been reports from time to time that he would return to Vienna. There is good reason to believe that the radical element in the National Socialist Party in Germany have considered him as an obstacle in their way and should he be recalled, it will add color to the reports above mentioned that the reorganization of the Foreign Office is to provide a better atmosphere for Austro-German relations. I am informed that his probable successor will be Professor Brüll who is known

as a "rationally minded" Austrian and who within the last year has received quite a number of honors from Germany. He is an historian and has written voluminously on Austro-German relations.

While these stories have shown the direction of the wind, more definite confirmation seems to come in an article which appeared in the *HEIMISCHER WIRTSCHAFTSBLATT* of November 11, 1930, entitled "Initiative in Commercial Policy". This is the Chancellor's newspaper. The article after speaking of the recent further advantages given to Vienna by Italy under the Rome Protocols through the trade agreement signed and which compensated Austrian trade for the lira devaluation, goes on to say that similar commercial advantages may come to Austria through the accord of July 11. It says that if Italy is principally interested in taking Austrian exports of wood, cellulose, steel, and machinery, Germany is the natural market for all Austrian agricultural products as well as for wood. If, as it is reported, Germany is prepared to make a wide reaching commercial offer to Austria and has the intention of purchasing the whole of the Austrian agricultural over-production up to 10% of the entire German needs - this would naturally be of great significance to Austria. There would be, of course, the article says, always the great difficulty that Germany would not have the necessary exchange and this would make it necessary for Austria to make counter purchases. In this respect there would come into consideration first the increasing of the imports of coal from Germany, but this would have to replace for the most part that coming from Poland, and this might

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require a change in existing Austrian commercial treaties. A second possibility lay in the purchase of special German products including those for the restaurant industry which could be used for the re-equipment of the Austrian Army. The Austrian budget was not very richly endowed with means for such purchases. Further such a financing of Austrian agricultural products exported to Germany would involve financing through Austrian money. The difficulties therefore for developing in any considerable degree the internal commercial situation in Austria were not small. These difficulties would come to the fore, the article said, during the next days when the conversations would take place with the Italian Foreign Minister, Ciano, in the Conference of the Four Protocol States in Vienna, and afterwards in the Austro-German commercial negotiations, and then follow the conclusion of the article which I believe is of sufficient importance to quote:

"Austria has, as we have already brought out last week in speaking of the reconstruction of the Government, in this respect not failed to show an accommodating attitude towards the German Reich. As further strengthening of the Austro-German commercial relationships, the pertinent organizations of the Austrian Government have been entrusted to persons from whom a close and appropriate cooperation with similar German commercial set-ups could be expected. Should the difficulties be of such a nature that they may be overcome, then the voyage which the Secretary of State, Dr. Schmidt, is to make to Berlin towards the end of November would justify the belief in a commercial cooperation between Austria and Germany of real significance, at the same time emphasizing the maintenance and ready bringing out the independence of Austria".

If anything were needed to substantiate the tendencies which have been pointed out in the preceding paragraphs, this

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leading article just referred to in the Chancellor's own paper would seem to give it. The article would give the impression, especially in the paragraph just quoted, that the recent Cabinet reorganization and the changes contemplated in the Austrian Foreign Office are intended to provide a more favorable atmosphere for Austro-German relations and were influenced to a degree at least by desire to show a conciliatory attitude towards Germany.

The Department will recall that in my despatch No. 554, of November 4, 1933, reporting on the recent reorganization of the Austrian Cabinet and in my confidential despatch No. 555, of November 14, 1933, on the approaching commercial negotiations between Austria and Germany, I stated that the Austrian Government had made it clear at this time that the Cabinet reorganization had been influenced entirely by internal considerations. There is reason to believe that this is so, but that since the reorganization the Government has deemed it appropriate to give the impression that certain changes at least were ~~motivated~~ the desire of improving the atmosphere of Austro-German relations. Whatever may have been the motives of the Austrian Government, it seems clear that in Berlin, in the German Legation in Vienna, and in National Socialist circles in Austria it is definitely considered that the elimination of Dr. Stockinger as Minister of Commerce will result in less Austrian opposition to German pressure during the coming negotiations for a trade treaty. As I have covered this in adequate detail in my confidential despatch No. 555, of November 14, I shall not go into it further here.

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While I have thought it important to outline the foregoing situation to the Department, for this looming towards Germany is important should it continue, I must repeat what I said at the outset that it is a difficult situation to convey adequately in a despatch and too great significance must not yet be given to this trend. The Austrian Government remains unperturbedly, I believe, and unalterably determined to maintain Austrian independence. It is finding its position increasingly difficult, as was reflected in the remarks which I have already conveyed to the Department which the Secretary of State for Foreign Affairs made to me recently "on the increasing difficulties of the Austrian position", and in his indirect reference to the increasing pressure from Rome and Berlin. Vienna is reeling under the uncertainty of the real status of the relationship between Rome and Berlin and this must have as an inevitable consequence a slight weakening of the Italian influence here and a corresponding accommodation to German pressure.

The Austrian Government is more than ever concentrated in the Chancellor whose position is unquestionably stronger within the Government and among the people than ever. The Chancellor's principal objective is that Austria shall emerge from this complicated and dangerous European situation with its independence secure. It may therefore be that the strains to which I have called attention in this despatch may merely represent an Austrian maneuver, and we shall have to wait for a little more time to pass for the real situation to emerge.

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I believe, however, that all observers here are of the opinion that the fate of Central and Northeastern Europe depends upon the maintenance of the Austrian position and there is increasing conviction, as I have so frequently explained, that if the Austrian position goes, the whole of the Northeastern European position goes with it. There is increasing reason to believe that this is now more thoroughly understood than ever in London, Paris, and Rome, and for this very reason it is probable that the position will be held.

In this connection I believe I should inform the Department that while the internal situation in Austria remains quiet and that Nazi activities have on the whole been kept down, there are evidences that the National Socialist group within the country are more encouraged. That they will be more active and become a danger to the Government is not yet likely. They lack leadership in the country, but it is now evident that an Austrian named Leopold has been named as the successor of Frick as Landesleiter of the National Socialist Party for Austria. He is known to be in close contact with the German Minister in Vienna, Herr von Papen, and I give below a brief résumé of a report which I have seen of the last meeting of the National Socialist leaders in Austria.

Chancellor Hitler for foreign political reasons, wants the situation to remain quiet in Austria. The Austrian Government in its foreign relations is bound to follow the lead of Germany. Captain Leopold has been named as Landesleiter for Austria and orders are to be obeyed implicitly. As a result of the conversations between Gessler-Herrmann

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and Chancellor Schuschnigg, seventy percent of the National Socialists under arrest in Austria have been released and the rest are to be let out shortly. All German newspapers, including the VOLKISCHE BEWAHRER and the AB-GRIFF, are to be admitted to Austria in the near future. The Austrian army is to be reorganized and re-equipped under German leadership and with German material. Mr. Heiter, the Fascist leader in Austria, is definitely in favor of some agreement being reached with Germany during the approaching trade negotiations in order that Austria may find an outlet for her agricultural surpluses. The German Minister, Mr. von Papen, wishes it to be known that he is against any present legalizing of the National Socialist movement in Austria as he considers the time for this not yet ripe and that it would be bad policy to press this matter at this time.

While a good deal which is set forth in the above paragraph represents plain hopes of the Austrian National Socialists, the report is interesting as I know that it comes from a trustworthy National Socialist source.

The monarchist movement has been brought forward again in the international press and particularly through the recent conversation which von Wismar, the head of the legitimist movement, had with Mussolini. This conversation is covered in the Weekly Notes of the Legation, but it is, I believe, necessary to point out here that Baron von Wismar in private conversations since his return to Vienna has said that Mussolini was in every way restrained in what he said on restoration. Mussolini indicated that the legitimists must realize that he was not opposed to the idea of restoration and monarchy, as it can be plainly seen that he believes in the monarchial form of government from any observation of the present Italian situation. He believed that the form of government and restoration

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were internal Austrian considerations, but that it would be inadvisable to consider any change in the state form of Austria for the present. According to Baron von Wiskner, any marriage allying the Italian Royal family with Otto von Hapsburg was not raised during his conversation with Mussolini.

So far as the Austrian Government is concerned the question of recovery remains unchanged and as I have reported it in my despatches from time to time. As the general European situation becomes more difficult, and as the Austrians may find themselves in greater difficulties through pressure from any direction, the idea of restoration has to come into the foreground. The Austrian Government, however, continues to view the question of restoration as not an actual one, but it is unquestionable that the idea of restoration has not been discarded.

Respectfully yours,

George S. Messersmith.

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