

French memorandum on future economic and financial arrangements for the Ruhr (1945)


Caption: In this anonymous note, officials at the French Foreign Office consider the political motivations and the economic consequences of the implementation of a system of international control for the Ruhr.

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1. — The purpose of this memorandum is to provide a preliminary outline of the economic and financial consequences of setting up international arrangements for the Ruhr of the kind currently advocated by the Government of France (memorandum from the French Ambassador in London dated 31 August 1945 and report on the Rhineland and Ruhr dated 12 October 1945).

2. — It must be pointed out first of all that the French Government's desire to detach the territory of the Ruhr from Germany and place it under separate international control is motivated primarily by security considerations and not by economic reasons. The importance of this solution for the future security of Europe is apparent when it is borne in mind that, given Germany's loss of her territories to the East and the attachment of the Saar to the customs territory of France, loss of the Westphalian Basin, too, would deprive her of most of the resources that she would need to wage war again in the future, namely more than:

95 % of the coal,
78 % of the iron,
80 % of the steel,
78 % of the rolled products,

available to Nazi Germany before the war.

3. — It is the view of the French Government, however, that this politically essential measure could be an important factor in the rebuilding and future prosperity of Europe, whatever economic and financial difficulties it might create at the outset. This memorandum includes no more than a brief outline of this proposition. Production statistics for the Rhine and Westphalia regions are difficult to obtain, but, in our view, the additional information that still needs to be gathered is unlikely to alter the findings of this initial study.

4. — In order to answer the questions that this raises, we feel that it is necessary to review the consequences of the future political arrangements for the Ruhr in the following areas:

I. — Programme of economic disarmament of the Ruhr and the future of its various industries.

II. — Future system of ownership rights in the Ruhr.

III. — Question of labour.

IV. — Customs and military arrangements and implications of the proposed solution for the economic situation of various other countries, notably Germany.

I. — Economic disarmament of the Ruhr and the future of its main industries.

5. — The removal of the Ruhr from German control does not mean that the rules of economic disarmament applicable to Germany should not apply in this territory, too. In the Ruhr, as in the heartland of Germany, the armaments industry must be eradicated altogether.

6. — This formula does not mean that the Ruhr will be stripped of all its industries. The area includes major processing industries, useful in peacetime, which must be preserved. Certain production sites currently located in the heartland of Germany can be moved to the Ruhr and placed under Allied control. The former economic links between the Ruhr and Germany will, of course, not be completely severed. But, by making Germany dependent for certain essential products on a Ruhr governed by the Allies, we shall have contributed to the economic disarmament of the Third Reich. At the same time, the International Government of the Ruhr can and must organise the area's domestic production in such a way that it does not disrupt neighbouring economies in its search for external markets.

It is with this in mind that consideration must be given to the ways in which the steel and engineering industries, coal mining, energy production, the chemical industry and a number of other industries should develop in the Ruhr in the future.

(A) Steel industry and engineering.

7. — In the first instance, there will be a massive reduction in steel manufacturing and engineering in the Ruhr, because of the application to these industries of the principle that all manufacturing of goods which can be used for military purposes must cease; this means the seizure as reparations or, failing that, the destruction of all plants making heavy forgings, heavy pressings, rolling mills producing heavy plate for armour plating and heavy rounds, artillery machining shops, aircraft engine factories, etc., and, consequently, a corresponding reduction in iron and steel production capacity. High-grade steels manufactured in electric furnaces are a prime requisite for armaments, so the electric steel plants in the Ruhr will have to be closed down. It would appear that part of their plant can usefully be moved to the Allied countries as reparations; the same goes for the machine tools industry.

8. — This will ensure that the only steelmaking and engineering industries existing in the Ruhr will be those serving the needs of a peacetime economy.

In this regard, and to an extent yet to be determined, the Ruhr will be supplied with steel industry semi-finished products by the French industry in Lorraine, in exchange for supplies of coal fines or coke from the Ruhr. This will reduce production of iron and steel in the Ruhr, where efforts will be concentrated more on rolling and the production of more highly finished goods.

German steel production and the output of France, Belgium and Luxembourg will remain closely linked, but iron and steel production by the Allied countries will be increased at the expense of that of the Ruhr. Instead of exporting French iron ore to Germany, the idea is that we should import coke and coal fines into Lorraine. Lorraine would thus supply steel to the Ruhr's processing industry for the manufacture and export of finished products. These goods could be exported worldwide, but they would go chiefly to Germany and to Eastern Europe.

9. — Ultimately, once armaments manufacturing is ended, a substantial reduction could be achieved in the steel and engineering industries in the Ruhr, although a more in-depth study will be required before final figures can be given. The rebuilding of these industries will also depend on the degree to which the industrial capacity of the rest of Germany, the Ruhr's chief customer, is reduced. However, an initial investigation has led French officials to believe that a production figure of 6 million tonnes of steel a year for Germany and the Ruhr (excluding the Saar and Silesia) should be enough to meet Germany's everyday needs and provide some exports of rolled products. The correct breakdown for steel production between the Ruhr and Germany will need to be studied in due course. Also, given the difficulty of knowing in advance what Europe's requirements for steel will be during the period of reconstruction, the Ruhr could also be routinely allowed an additional safety margin of 2 million tonnes by way of a reserve.

Supplies of iron ore for steelmaking in the Ruhr should be drawn in the first instance from German sources and then from those in Lorraine. These sources should meet as large a proportion of the Ruhr's needs as possible, and the rest should be met by imports from Sweden and North Africa. Since all this ore will be transported along the Rhine, it will be easy to check tonnages.

(B) Coal production

10. — It is highly desirable to maintain coal production in the Ruhr and even to expand it as far as possible. Annual production had reached 120 million tonnes in 1943. In 1937, it had been just 100 million tonnes, 60 million of which went to Germany, whilst 40 million were exported, two thirds of this to the countries of the

West: (France: 12 to 15 million tonnes, Belgium, the Netherlands, the rest to Italy, Switzerland and Scandinavia).

11. — The requirements of the Ruhr and Germany will necessarily be greatly reduced. It will be possible to increase quite considerably the quantity taken by France and the quantities exported to Belgium, the Netherlands and Italy. These will be chiefly coal fines and coke. We must expect a decrease in exports from Britain in future, given the fall-off in UK production. ⁽¹⁾

It is also in France's interest to import less coke than coal fines so as to enable the French economy to benefit from gas and the by-products of coal coking.

The coal industry should thus continue to be a major activity in the Ruhr, employing most of the 250 000 blue- and white-collar workers employed there before the war.

(C) Energy production.

12. — The Ruhr is a major energy producer: electricity generated by gas- and coal-fired power stations and gas produced by its coking plants and blast furnaces. It exports these two forms of energy far outside its immediate area.

13. — The measures proposed above (cuts in coke and pig iron production) will automatically bring about a marked reduction in energy production. Our view is that there should be no additional measures further to reduce energy production in the Ruhr.

14. — It would also be a very good idea to organise energy conduits from the Ruhr to the countries in the West — France, Belgium and the Netherlands — by building long-distance gas pipelines and, especially, high-voltage power lines.

(D) Chemical industries.

15. — The Ruhr's chemical industry must be subject to the same general rules of destruction, transfer and control envisaged for the rest of Germany. The first step must be the ending of all manufacturing seen as serving military purposes and, primarily, the manufacture of synthetic petrol.

16. — The rest of the chemical industry will automatically suffer some cut-backs as a result of the reduced number of coking plants. Generally speaking, the aim will be to export coal on the basis of the formulae set out above, rather than leaving it *in situ*, in order to encourage the secondary industries which depend on it.

17. — It is necessary, however, for the Ruhr to retain a limited chemical industry serving the peacetime needs of markets situated principally in Germany (nitrogen industries and those making the nitrogen-based fertilisers needed for Germany's agriculture).

(E) Miscellaneous industries.

18. — Aluminium — French policy seeks to end aluminium production in Germany altogether. However, the Ruhr has a major complex near Lünen producing alumina (90 000 tonnes) and aluminium (45 000 tonnes) which is financially viable. If a reduced level of aluminium production is maintained in Germany (for example 25 000 tonnes a year), it might be an idea to concentrate manufacturing exclusively on the Lünen complex. This would make monitoring easier than if there were still a number of licensed plants remaining in the German heartland.

19. — Other industries in the Ruhr serving peacetime needs should be allowed to continue: textiles, leather, food production, etc. These plants should also have markets over and above their local ones, chiefly in Germany and

Central and Eastern Europe. Account must naturally be taken of the legitimate interests of the Allies in organising these trade flows.

II — Future system of ownership rights in the Ruhr.

20. — Assuming that the Ruhr remains industrialised and that the international authority organises its industries along the lines set out above, we need to think about the future status of the businesses located in this area. The mines cannot be left in the hands of their present owners. For political and security reasons, heavy industry will also have to be expropriated. This policy will require companies to be taken over by new management or at the very least, strictly overseen. For all the Allied Powers forming part of the International Government, this creates a staffing problem. Clearly the countries concerned will have to give thought, as swiftly as possible, to recruiting the requisite managerial staff. German manpower can provide the technical staff.

21. — Outright expropriation would seem, in fact, to be the only solution. The result will be the abrupt severing of all financial ties currently linking the industries of the Ruhr with the money markets of Cologne and, above all, Frankfurt.

22. — In these circumstances, who will take over the ownership rights left vacant in this way? Private-sector ownership would seem inappropriate. The ideal solution would thus seem to be that these industries should be taken over by international consortia, their shares being held by the countries responsible for managing them. These countries would have to subsidise the consortium if the expropriated companies were unable to provide the necessary working capital. Any profits not ploughed back into the company would be split between the Allied Powers as reparations payable by Germany or used for other purposes (notably to pay for imports deemed essential to Germany).

III — Question of labour.

23. — We need to give special consideration to the repercussions of this internationalisation of the Ruhr on the demographic situation and, in particular, on labour. Clearly, the body of measures proposed will result in a general reduction of manpower requirements in the Ruhr.

24. — It is likely, however, that, in parallel with this reduction, there will be a sharp decline in the Ruhr's working population because all the foreign nationals currently there will leave. Before the war, the Ruhr had quite a few groups of Polish workers who will doubtless wish to return to their own country. Once the war had begun, the Nazi regime brought in a very large number of foreign workers to the Ruhr as slave labour (Frenchmen, Dutchmen, Poles, Ukrainians, Belgians, Italians). Some statistics indicate that the proportion of foreign nationals in the Ruhr in 1943 was 60 %; all these workers will, obviously, be leaving Germany now.

25. — The question is how the German workforce left in the Ruhr will adapt to the new jobs that they are given. It is impossible to know this in advance.

The above comments suggest, however, that there will be no major population movements within the Ruhr and that they will not bring about any significant disruption. At all events, these movements will be no different from those which would have occurred if the Ruhr had remained an integral part of Germany.

IV — Customs and military arrangements and implications for international trade.

26. — Obviously, it is hard to predict exactly what the customs and military arrangements for the Ruhr will be and what implications the area's internationalisation will have for international trade. Because of the lack of statistics and recent information on production in Germany, we can only put forward hypotheses.

27. — We have to remember, however, that the solution advocated by the Government of France is dictated above

all by a concern for future security. It could, nevertheless, be shown, with figures to back it up, that this makes little sense economically. It could be argued that it is inappropriate to create a new customs entity in Europe, when everything suggests that we need more extensive free trading areas. It could even be said that the best solution, economically speaking, would be a greater Reich. The answer to all this is that the plans of the French Government are in no way motivated by financial concerns.

28. — Economies necessarily tend to adapt to territorial solutions dictated by politics. However, we think that our proposed solution for this case not only meets the essential needs of security but could also be an important factor in rebuilding Europe and the prosperity of Europe.

29. — The aim is not, in the first instance, to erect customs barriers at the borders of the territory of the Ruhr. There will, of course, be a customs cordon between the Ruhr and the territories surrounding it, but the prime object of this measure will be to enable the international committee to monitor the implementation of the measures that it has adopted.

30. — Economic and political detachment of the Ruhr will require the introduction of a new currency. An issuing bank will be needed for this purpose. It will easily be able to find the cash assets that it needs from the accounting balance surplus.

31. — We must answer at this point an objection, expressed in Great Britain in particular, to the idea of detaching the territory of the Ruhr. It has been said that this solution would deprive the former Third Reich of the majority of its resources, leaving at the heart of Europe a population of some 50 million people in a constant state of penury, perpetuating the causes of unrest and constituting an ongoing threat to peace and stability in Europe. It is true that internationalisation of the Ruhr will initially create a major economic imbalance in Germany in addition to the difficulties caused by Poland's annexation of the Silesian Basin.

German exports of coal and coke, steel products, finished and semi-finished metal products and even of textiles and chemicals will fall considerably. Germany's imports can doubtless be cut, since her armaments requirement will be reduced to zero. But, even if Germany's agricultural production is working to maximum capacity, the country will still have to import very large quantities of food from abroad. In 1937, to feed a population of 60 million, Germany imported cereals to a value of 427 million marks, and meat, livestock, dairy products, oleaginous fruits, coffee, tea, etc. to the tune of 940 million marks. In order to feed a population of 50 million, Germany is thus likely to remain largely a net importer of foods.

32. — Whilst its economy is readjusting, the new Germany will undoubtedly have great difficulties in balancing her trade. How might the deficit be made good?

(a) Firstly, detachment of the Ruhr and the Saar will hive off from Germany as a whole populations which play no part in feeding the country because they are engaged solely in industrial activity.

(b) As far as possible, every effort must be made to maximise Germany's agricultural production.

(c) Germany will continue to have a sizeable industry, since she retains areas such as Saxony, Thuringia, Berlin, Hamburg, Hanover, Kassel, etc.

(d) Germany's resources will be allocated solely to peacetime requirements and no longer used to purchase raw materials or manufactured products which could be used for military purposes.

(e) Germany's demographic situation is currently in turmoil. It is not possible to use this situation as a basis for any permanent solution. Measures will be needed to restore some form of balance, notably by introducing a policy of emigration.

33. — However, this body of measures will not be enough on its own to allow the new Germany to survive without help from outside. However, the territorial measures envisaged will in no way make things worse, because there will be nothing to stop the Ruhr's balance of payments surplus being used as it would have been within the former borders of Nazi Germany. Any surplus in foreign currency earnings from the Ruhr's foreign trade can be used, as the powers responsible see fit, either for reparations or to pay for part of Germany's purchases abroad which the Allied Control Council regards as essential.

34. — The considerations outlined above highlight the essential features of the Ruhr, which needs to be detached from Germany and placed under international control. This territory must include most of the industries and mines whose production must be controlled. But, in order not to make the problem worse, efforts must be made to minimise the land area needed in order to take account of existing conditions.

The borders indicated on the map should provide a satisfactory solution to the political problem, and this memorandum has endeavoured to give a broad outline of the economic implications of that problem.

(1) It should be noted that UK supplies are predominantly of low-volatile steam coal. So increased French imports of coke and coal fines from the Ruhr, with a matching increase in our steel production, should not be a cause of alarm to British exporters when the time comes for them to resume foreign sales on a larger scale.