

# Report by Albert Bureau on the demerging of the German steel industry (28 June 1951)


**Caption:** On 28 June 1951, Albert Bureau, Director of the Iron and Steel Industry in the French Ministry of Industrial Production, drafts a report on the implications of the demerging of the German iron and steel industry in the Ruhr industrial basin.

**Source:** Archives historiques des Communautés européennes, Florence, Villa Il Poggiolo. Dépôts, DEP. Pierre Uri, PU. PU 38.

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### Before and after the demerging of the German steel industry

#### I — Structure of the Konzerns

The German steel industry used to be dominated by a dozen Konzerns which accounted for more than 90 % of the steel and 60 % of the coal produced in Germany. These Konzerns were:

Vereinigte Stahlwerke  
Krupp  
Mannesmann  
Kloeckner  
Hoesch  
Gutehoffnungshütte  
Otto Wolff  
Flick  
Ilse-der-Bornemisza  
Stinnes

The Nazi regime added a State-owned trust:

Reichswerke

The table in Annex No 1 shows, for the six main Konzerns, the percentages of coal and steel production each accounted for before the war. Together these six Konzerns accounted for 33 % of the coal and 65 % of the steel.

These Konzerns were each organised rather differently according to their origins: some developed around a steelworks, like Krupp and Hoesch, while others were founded by traders, such as Kloeckner and Otto Wolff. Mannesmann was set up on the basis of tube manufacture. Vereinigte Stahlwerke, the most powerful of the Konzerns, was the outcome of the merging of a number of very large steel and coal companies after the 1924 slump.

As regards ownership, some Konzerns are still controlled by the founding families: Krupp, Kloeckner and Otto Wolff. At Mannesmann and at Hoesch the founding families lost control more than 50 years ago; it passed into the hands of banks grouped around the Deutsche Bank, and the capital was distributed among the public. The Banks only hold a tiny share of the capital, but at the annual meetings they hold the powers of their clients and of many small shareholders grouped in 'Sammel-depots'. In the case of Hoesch, the Deutsche Bank represents about 30 % of shareholders. At Vereinigte Stahlwerke, there is a half-way system: the groups share 45 % of the capital, including 27 % held by the Thyssen Group, while the remainder is distributed among 50 000 shareholders.

Whatever the structure of a Konzern, there are three common features:

1 — Inside each Group, management was heavily concentrated, particularly through the workings of the *Organvertrag*.<sup>(1)</sup> This led to the management team holding economic power combined with considerable political power, whether the team was there to represent the owners or the Bank that controlled the

undertaking. In Germany, where industrial prosperity is the basic condition for the existence of the population, whoever runs an important industry is bound to have influence with the government. So a small number of men had control of the Ruhr, and their effect on the destiny of the country was considerable.

2 — There is a wide variety of activities, particularly as the result of very advanced vertical integration, from coal and ore to shipbuilding and mechanical engineering. This amalgamating of different undertakings grouped together in the same hands gave the management team wide opportunities for manoeuvre.

Normal competition was distorted as a result of aid or compensation which some companies granted to others. There was no 'standard price' for each product and the economy was artificial in a way which was especially sensitive to the decisions of a few leading industrialists.

3 — Heavy horizontal concentration led to substantial output. In the case of Vereinigte Stahlwerke, it was 27 million tonnes of coal (more or less the output of the whole Nord and Pas-de-Calais coalfield) and 8 million tonnes of steel ingot (more or less the output for the whole of France). The various Konzerns were also grouped together in large numbers of combines and cartels which completely dominated the market in certain products and made it impossible for new arrivals to get ahead.

This point of view was particularly clear-cut in the commercial field. The German companies which belonged to the Konzerns used to sell their output, at any rate as far as ordinary steel was concerned, through the cartels. These dealt directly with customers for certain categories of products, but had to go through the steel trade for standard goods, even where there was a direct sale by factory to consumer. In fact, each Agency dealt with only a small number of privileged traders who had placed a minimum volume of orders the previous year. These traders then sold all the steel or cast iron on either to secondary traders or to consumers, at prices marked up from the factory prices and allowing a discount which, for each customer, depended on purchases it had made in the previous year.

The result was an extremely stratified trade in steel: each trader could serve as middleman only for consumers whose discount rate was lower than the one he was himself allowed. Furthermore, consumers could not buy direct from the factory and had to go through the steel trade, which took a large cut without there being, in most cases, any economic justification for its involvement. The privileged middleman who took the order had nothing to gain from lowering the price, and hence his commission.

Each Konzern, of course, included one or more of these privileged traders who, depending on their size, were given very large discounts.

## **II — Special study of Vereinigte Stahlwerke**

To help understand the nature of these Konzerns more clearly, we will briefly look at Vereinigte Stahlwerke, the most powerful of them, which is involved mainly in producing coal and steel.

Vereinigte Stahlwerke (see Annexes II and IIa) is not directly involved in operations. It has operating companies (*Betriebsgesellschaften*) whose capital assets belong to the Konzern itself. There are more than 50 of these companies. The table in Annex IIa does not show the main *Betriebsgesellschaften*. They are, very broadly speaking, linked to the parent company by an *Organvertrag*.

Alongside the operating companies are the subsidiaries proper: companies which own their capital assets but depend heavily on the Konzern itself from the point of view of management and operation.

In brief, Vereinigte Stahlwerke used to comprise, apart from the parent company that owned the coal and steel plant and the largest of the other capital assets:

1 operating company to extract the coal (27 million tonnes a year) and manufacture the processed products (coke, energy, etc.),

- 13 companies holding coal and lignite concessions,
  - 5 coal chemistry companies (synthetic petrol, tars and other products),
  - 1 gas distribution company,
  - 21 mineral ore companies (3 million tonnes a year) including some abroad (in Sweden and Brazil),
  - 3 scrap companies,
  - 17 companies dealing in lime, dolomite and refractories (2 million tonnes of lime, 400 000 tonnes of dolomite, etc.),
  - 13 steel companies in the full sense (8 million tonnes of liquid steel),
  - 36 processing companies (machinery, car or tractor manufacture, shipyards, etc.),
  - 13 companies trading in steel,
  - 55 companies transporting and marketing coal and by-products of coal, liquid fuels and building materials,
  - 20 property companies including 4 powerful housing companies administering or possessing more than 70 000 dwellings,
  - 10 companies of a social nature (provident funds, consumer cooperatives),
  - 10 miscellaneous companies (transport undertakings, hotels, etc.),
  - 11 professional associations or combines;
- in all, more than 200 companies, of which some, it is true, were only companies not engaging in any activity (shell companies or *Mantelgesellschaften*).

At the end of 1948, the value of investments in the various activities of Vereinigte Stahlwerke was as follows:

Millions of marks			
— Cast steel	481		
— Coal and by-products	225		
— Housing	112		
— Commercial companies	54		
— Raw material companies	26		
— Steel processing companies	89		
— Miscellaneous (in particular, foreign shareholdings)	59		
	1 046 million		

These figures, of course, represent very different values of the mark. To evaluate the investments at current value, roughly speaking we arrive at the following figures:

Coal	1 billion DM		
Steel	1.5 billion DM		
Other activities	0.5	" "	
	-----		
	3	" "	

These figures take account of:

- a) war damages of approximately 500 million DM,
- b) dismantling of plants, worth 500 million DM,
- c) foreign asset losses amounting to at least 250 million DM.

Had these consequences not applied, the value of Vereinigte Stahlwerke's capital assets and shareholdings would be greatly in excess of 4 billion DM. The figures below illustrate the preponderant place held by coal and steel in this Konzern.

We could not, without making this note too long and repeating ourselves, give the same type of information about the other Konzerns. We therefore confine ourselves, in Annexes III, IV, V and VI, concerning Mannesmann, Kloeckner, Hoesch and Otto Wolff, to indicating how these four Konzerns have developed, stressing the special character of each one.

### **III — Initial measures by the Allies. Segregated companies**

Aware of the possible political drawbacks of a German economy which was too heavily concentrated in the hands of a small group of 'managers', the Allies, as early as the Potsdam Conference, decided to adopt demerging measures in all fields where it proved necessary.

Immediately after the German capitulation, the British military authorities, who were responsible for the bulk of the steel and coal industries geographically concentrated in the Ruhr basin, decided to sequester the principal Konzerns below, which controlled 97 % of steel production in the British zone:

1. Vereinigte Stahlwerke Aktiengesellschaft,
2. Fried Krupp,
3. Mannesmannröhren-Werke,
4. Klöckner-Werke, Klöckner & Co
5. Hoesch Aktiengesellschaft,
6. Otto Wolff,
7. Gutehoffnungshütte Aktienverein für Bergbau und Hüttenbetrieb,
8. Ilseder Hütte,
9. Reichswerke Complex,
11. Thyssen Bornemisza Group

Similar measures were adopted in the American and French zones.

In the British zone, the operating of the main factories belonging to the large Konzerns was, between 1 March 1947 and 1 April 1948, made the responsibility of 24 management companies known as 'segregated companies' or 'severance companies'; these were independent of each other and became the leaseholders of the industrial plant, which remained the property of the Konzerns, from which the capital machinery and stocks required for operation were bought.

These 24 companies account for 80 % of production. Nine of them operate factories belonging to Vereinigte Stahlwerke, three are offshoots of the Klöckner group, three of Mannesmann, two of Ilseder Hütte, two of Hoesch, one of each of the Gutehoffnungshütte, Otto Wolff, Krupp and Thyssen-Bornemisza groups; one, lastly, manages property belonging to both Vereinigte Stahlwerke and Klöckner. Only four companies have an annual output which exceeds one million tonnes of steel ingot and the others are considerably smaller.

Incidentally, these companies constituted the first case of application of the workers' co-management right known as *Mitbestimmungsrecht*, which, after this trial run, was incorporated into German law in 1951.

The management board of these segregated companies includes trade unionists and representatives of the staff to delegates of the former proprietor Konzerns. The Vorstand, alongside the technical manager and the commercial manager, includes a social manager.

These 24 management companies, kept apart from all activities of the Konzerns other than steel production in the pure sense (coal, marketing, transport, processing), have been a success. They have repaired their war damage, restored their plant, which was heavily affected by bombardment and dismantling, to working order and, thanks to substantial self-financing, have, almost without outside help, reached the planned levels of production and exceeded them as early as September 1949. Even so, a campaign of orchestrated propaganda a few months ago claimed that the German steel industry must at all costs be granted 2 billion DM in foreign credit so that it could produce the authorised 11.1 million tonnes.

#### **IV — Law No 75 and Law No 27**

In November 1948, a bipartite law, No 75, applicable in the British and American zones, was passed, liquidating the Konzerns and reorganising their coal and steel undertakings.

In May 1950, Law No 27, promulgated by the Allied High Commission and therefore tripartite, replaced Law No 75, amending it in a number of respects, including the provision of compensation for those entitled to claim. The basic purpose of these laws was to eliminate Nazi influence and break up excessive concentrations of economic power. The Konzerns' coal and steel assets have to be transferred to new, independent, economically viable companies. Surplus assets regarded as not useful under this new arrangement are dispersed, the former Konzern being wound up and required to cease to exist.

#### **V — Reorganisation plan under Law No 27**

At the end of November 1950 a plan to reorganise the steel industry was submitted to the Allied High Commission by the Steel Control Group. The High Commission communicated the content of it to the Federal Government for its observations. The Plan, which was drafted in the light of experience with the management companies, comprises the establishment of 29 new independent companies with statutes designed to prevent attempts at re-merging, coalescing or operating in areas unconnected with steel production. These companies are economically viable units capable of competing.

Following laborious negotiations, on 14 March 1951, the Federal Government gave its agreement in principle — subject to ratification of the Schuman Plan — to the establishment of 24 companies, and it is to be hoped that the first of these companies will now be established very rapidly.

Despite concessions that have proved necessary on the political level, particularly in the area of the coal-steel link, where 20 % of German coal production will continue to be tied to the steel industry (compared to 60 % before the war), the planned new companies are large enough to play their part with confidence in the European organisation of the Schuman Plan, even though some of them still considerably exceed the average level generally found in other European countries. The note in Annex VII gives some information about these companies.

#### **VI — Liquidation of the Konzerns**

When the new companies are set up, the property of Konzerns not incorporated into the reorganisation of the steel and coal industries will still have to be disposed of. On 14 September 1950, two regulations pursuant to Law No 27 laid down that, from 1 October of this year, the six principal Konzerns would be wound up, viz:

— Krupp,

- Vereinigte Stahlwerke,
- Mannesmann,
- Kloeckner-Werke,
- Hoesch,
- Gutehoffnungshütte.

As the general partnerships Kloeckner Co and Otto Wolff and the State-owned company Reichswerke raised more complicated problems, they were held over to a second stage. The liquidators will be selling off or assigning to those with a claim (debtors, shareholders of the Konzerns) shares belonging to some 300 companies of very different sizes.

In the case of Vereinigte Stahlwerke, because the Konzern is involved essentially in coal and steel production, there are very few large companies which will not be incorporated into the new organisation. The main ones are:

Nordseewerke Emden, shipyard,  
 Seereederei Frigga, shipping,  
 Hanomag, tractors and motor vehicles,  
 Indugas, industrial heating.

The number is larger in the case of Konzerns less geared towards steel production, although they are much less powerful: Gutehoffnungshütte, for example, will have to disperse a great many top companies:

Deutsche Werft, Hamburg, shipyards,  
 M.A.N. (Maschinenfabrik Augsburg-Nuernberg), mechanical engineering,  
 Zahnraederfabrik Augsburg, mechanical engineering,  
 Hackethal Draht und Kabelwerke, cabling, wire-drawing,  
 Osnabricker Kupfer und Drahtwerke,  
 Haniel und Lueg, drilling equipment,  
 not to mention smaller companies.

## **VII — Position regarding completion of demerging**

To summarise, the results of demerging under Law No 27 will be as follows:

In the steel industry proper, some 30 companies independent of one another, replacing direct operations or subsidiaries tightly controlled by the workings of the *Organvertrag*. In addition to this horizontal demerging there will be a vertical demerging. The coal-steel connection is being considerably reduced, with the percentage of coal controlled by the steel industry cut from 60 % to 20 %. The iron ore mines will probably be shared out between a number of regional companies which are independent of one another: one or two in the Siegerland, one or two in the Salzgitter, one or two in southern Germany, and they will be attached to some of the 30 steel companies. The processing industries will be separated from steel production; Hanomag, M.A.N. and Kloeckner-Humbolt-Deutz, among others, are being made independent. We hope, lastly, that the cartel-associated practices and the 'discount system' which give the commercial companies a dominant position will disappear, as each steel company will be able to make direct contact with its customers and will be free to sell its output according to normal competition rules.

The table in Annex IX, concerning Vereinigte Stahlwerke, shows the results of demerging the Konzern; instead of a centralised organisation, there will be companies independent of each other in each of the former Konzern's major areas of activity, in particular:

- a) a number of new companies possessing coal mines,
- b) 13 new steel companies of which only four will possess their own coal mines. The largest company will produce 2 million tonnes of steel ingot. Some processing companies (extrusion, forging etc.) will be attached

to these 13 companies.

c) there will probably be two mining companies attached to some of the 13 steel companies,

d) raw material companies (lime, dolomite, etc.), of which some will be independent and others probably attached to some of the 13 new steel companies,

e) some commercial companies, either independent or converted, a sales department for the steel companies such that the privileged position held by Vereinigte Stahlwerke's old commercial companies is broken and factories may acquire the right to deal directly with their customers, and a taste for doing so,

f) regionally decentralised housing companies attached to some of the steel companies,

g) mechanical engineering companies (Hanomag), shipyards (Deutsche Werft), etc. completely separate from the former Konzern's other companies.

### **Final remarks**

1) An operation as complicated as demerging the industry of the Ruhr cannot be represented by a diagram.

It does not merely consist in dividing old undertakings or smaller undertakings, or in abolishing centralising organisations. To a large degree it lies in a change of 'mindset', a modifying of the 'ants' nest' atmosphere; in short, a change in the management teams, enlarging them considerably by adding new people.

2) The preceding pages give an idea of the 'concentration of economic power' that the Potsdam agreement set out to break.

Concentration of this type is not an empty word: it has major political consequences that are sometimes not fully grasped in France, since industry does not play the vital, fundamental role in this country that it does in Germany.

In the economic sphere, the interweaving of activities and the existence of horizontal, monopoly-style bodies gave the Ruhr economy a special structure that is difficult to include in a European system of organisation devised in keeping with the spirit of the Schuman Plan.

3) The fact that the former Konzerns have for several months succeeded in delaying the implementation of Law No 27, although it had been practically adopted by the German Government, will, we think, constitute evidence of the effectiveness of their political action.

4) But, some will say, supposing the demerging is carried out successfully, can we bank on its surviving? Will we have changed people's habits at the same time as we have changed the structure?

Articles 65 and 66 of the Schuman Treaty are the sign of a policy designed to safeguard, in the interests of everyone including the Germans, the work done in the Ruhr at the time of the occupation.

The extraordinarily rapid growth in German steel production in the last two years shows that the reforms carried out in the steel sector so far have not harmed the German economy.

In our opinion, the emergence of new personnel in the various mining and steel companies is what will impart a new spirit and ensure that the demerging lasts.



There are two pieces of evidence for this:

The first is that in the segregated companies set up three years ago, a genuine spirit of independence is beginning to emerge, despite the temporary and imperfect nature of these operating companies, and despite the re-emerging power of the teams from the former Konzerns.

The other is that the reaction from the former Konzerns reached its climax when steps were going to be taken to set up the new companies, i.e. to appoint the boards of directors and the senior managers.

Everything done by the former management teams from the Ruhr was designed to wrest the power to appoint the people who would be at the controls from the Steel Trustees Association <sup>(2)</sup> so that they could do it themselves.

A. Bureau

(1) An *Organvertrag* is a contract whereby a subsidiary company undertakes to work exclusively to the orders of, and for, the parent company, which takes the profits and bears the losses.

(2) A new German body responsible for implementing Law No 27.