THE ECONOMIC RELATIONS BETWEEN NAZI GERMANY AND FRANCO SPAIN, 1936 - 1945

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APRIL 1994

submitted to
FACULTY OF MODERN HISTORY
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ABSTRACT

During the course of the Spanish Civil War Nazi Germany´s intervention on behalf of General Francisco Franco and his fellow insurgents became increasingly dominated by economic considerations. National Socialist policies *vis-à-vis* Nationalist Spain developed into a programme of large-scale economic exploitation. Under the command of Hermann Göring two companies were founded in Spain in late July 1936 (HISMA) and in Berlin in early October 1936 (ROWAK) to take control not only of National Socialist supply operations for Franco but also of the whole economic relationship between Nazi Germany and Nationalist Spain. During the course of the civil war HISMA/ROWAK managed to alter the trading pattern between Spain and Germany away from mainly fruit imports towards a substantial increase in raw material supplies. As British companies controlled most of the pyrite and iron ore mines of Spain and were therefore directly affected by Franco´s redirection of ore exports to Germany, this development was challenged by the British government. The Nazi regime was only partly successful in reducing non-German economic influence in Spain. Aware of the temporary nature of Franco´s dependence on German war *matériel*, Hermann Göring initiated the MONTANA project in 1937 to build up a German-owned mining empire in Spain. While the purchase of Spanish mines by HISMA/ROWAK was reluctantly accepted by Franco in late 1938, the Nazi regime was left with very little time to proceed even further with its economic "colonization" of Spain. The outbreak of war in September 1939 put an effective halt to German-Spanish economic relations until the defeat of France in summer 1940 led to a reopening of rail links to Spain. Subsequent - unsuccessful - negotiations on a Spanish entry into the war were dominated by economic considerations. From 1941 onwards an increasing trade and clearing imbalance developed in favour of Spain. Germany was desperate to import certain goods from Spain, particularly wolfram ore, a vital raw material for German armaments producers. Yet, the Allied economic warfare campaign in Spain led to huge price increases and during the period 1942 to 1944 the Nazi regime found itself forced to export growing amounts of war *matériel* to Spain. The Allied invasion of France in 1944 finally led to the effective end of German-Spanish trade relations, although both regimes tried to maintain them until Hitler´s final defeat.

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ACKNOWLEDGMENTS

I would like to express my sincerest gratitude to a number of people who have helped me at various stages of the development of this thesis. First and foremost, I am deeply grateful to Tony Nicholls who proved to be a true *Doktorvater*. His support has extended into all areas related to this thesis, including many valuable references and recommendations in my quest to finance my research. Our regular meetings were always useful and stimulating and his advice has been invaluable.

Glyn Stone deserves many thanks for putting me onto this topic in the first place and for his continued assistance thereafter. Special thanks are also owing to Michael Hurst. I would also like to acknowledge the help I was given by Hartmut Pogge von Strandmann and Professor Charles Feinstein.

My research for this thesis has led me into a number of archives in Germany, Spain and Britain. I would like to thank the staff of the following institutions for their help: the German Federal Archive in Koblenz (particularly Ms. A. Tiefenbach), the German Military Archive in Freiburg, the German Federal Archive Abteilungen Potsdam, the Public Records Office in London, the Foreign and Commonwealth Office Library in London, the Imperial War Museum in London (particularly Mr. S. Walton), the Banco de España in Madrid, the Archivo Histórico Nacional in Madrid and the Archivo del Ministro de Asuntos Exteriores in Madrid.

I will always remember fondly St. Antony´s College and its friendly staff while St. Antony´s College Football Club provided me with often welcome distraction.

For their financial assistance I would particularly like to thank the Economic and Social Research Council, the German Historical Institute in London and Wolfson College, Oxford. The latter deserves a very special mention for providing me with a Junior Research Fellowship just at the right time.

Finally, I would like to thank my wife Anja for her help, patience and for being there when I needed her.

ABBREVIATIONS

AA	Auswärtiges Amt
ADAP	Akten zur deutschen auswärtigen Politik
AGK	Ausfuhrgemeinschaft für Kriegsmaterial
AHN	Archivo Histórico Nacional Madrid
AO	Auslandsorganisation of the NSDAP
BA	Bundesarchiv Koblenz
BA/MA	Bundesarchiv/Militärarchiv Freiburg
BA/Pots	Bundesarchiv Abteilungen Potsdam
BE	Banco de España Madrid
BoT	Board of Trade
DGFP	Documents on German Foreign Policy
FCO	Foreign and Commonwealth Office Library London
FO	British Foreign Office
HISMA	Sociedad Hispano-Marroqui de Transportes
IWM	Imperial War Museum London
KTB	Kriegstagebuch
MAE	Archivo del Ministerio de Asunto Exteriores Madrid
MEW	Ministry of Economic Warfare
OKM	Oberkommando der Kriegsmarine
OKW	Oberkommando der Wehrmacht
PRO	Public Records Office London
RFM	Reichsfinanzministerium
ROWAK	Rohstoff-Waren-Kompensation Handelsgesellschaft AG
RWM	Reichswirtschaftsministerium
SOFINDUS	Sociedad Financiera e Industrial
UKCC	United Kingdom Commercial Corporation
USCC	United States Commercial Corporation

INTRODUCTION

During the night from 25 to 26 July 1936 Hitler took the far-reaching decision to involve Germany in the Spanish Civil War by granting supplies to one of the leaders of the insurgents. Nearly three years later, Nazi Germany´s intervention had contributed substantially to the victory of Hitler´s *protegé*, General Francisco Franco. During the course of these three years, and as a result of Germany´s support for the future victor, a `special relationship´ between the new Spanish regime and the National Socialist dictatorship was established. This was true not only for diplomatic and military affairs, but for economic ones as well.

Under orders from leading members of Hitler´s regime, most notably Hermann Göring, representatives of the Nazi dictatorship deliberately steered Germany´s economic relationship with Nationalist Spain into new waters. A unique trading system was established to deal with the special conditions created by the civil war in Spain. The available evidence leaves no doubt that the Nazi leadership actively pursued policies to ensure that the balance of the new economic relationship would tilt irreversibly in favour of Germany. Indeed, a large-scale exploitation of Spain´s economic resources - and particularly her raw material wealth - was planned early on during the civil war and rapidly initiated. By early 1939, at the end of the civil war, the Nazis had established a foothold in Spain´s mining industry and further expansion seemed to face no major restraints.

Yet, in 1939 Germany´s `special´ relationship with Franco Spain - and in particular its economic element - was only given five months to develop under peacetime conditions before Hitler embarked on the realization of his murderous war plans. From the German invasion of Poland in September

1939 to the armistice with France in June 1940, Franco Spain was virtually cut off from Germany. From the economic stand-point, relations came to an almost complete standstill while diplomatic relations between the two regimes continued largely on the back burner. Although, after the fall of France, relations were fully ignited again, Spain never became a full military member of the Axis. Nevertheless, the relationship with Germany remained extremely close for the next four years. In the absence of any major military involvement of Spain in the Second World War, the economic aspect of the relationship between the two states developed into its central element between 1941 and 1944. Yet, in contrast to the civil war period, Franco could was in a much stronger position when forced into German demands for certain products and with Nazi attempts to exploit Spain economically.

Within the above timeframe, this study is therefore concerned with the economic aspect of the relationship between the Franco regime and one of its two major midwifes´ - National Socialist Germany (Fascist Italy having been the other one). With the exception of Klaus-Jörg Ruhl´s article of 1980[1], no single study has yet examined the economic relationship between the two dictatorships for the whole of the period between the outbreak of the Spanish Civil War in July 1936 and the demise of the Nazi regime in 1945.

Angel Viñas´ excellent monograph *La Alemania Nazi y el 18 de Julio* has enlightened us about the whole of Spanish-German relations during the Weimar period as well the period from the National Socialist seizure of

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[1]K.-J. Ruhl, "L´Alliance a distance: Les relations économiques Germano-Espagnoles de 1936 à 1945", in *Revue d´Histoire de la Deuxième Guerre Mondiale*, 118, April 1980, pp.69-102.

power to the first weeks after the outbreak of the civil war.[2] One major focus of his study was a thorough examination of the economic aspect of this relationship. Viñas then went on to demonstrate his interest in German-Spanish relations by examining major aspects of their development during the civil war period as well as during the Second World War. As one of the main contributors to a substantial two-volume publication on the development of Spain´s commercial relations with the rest of the world and their implications for the Spanish economy between 1931 and 1975, he produced by far the best available study of Spain´s economic relations with Nazi Germany.[3] Based on wide documentary evidence accumulated in Spain, Germany and Great Britain, Viñas has also written a number of articles on the relationship between Spain and Germany which have been brought together in the immensely useful *Guerra, Dinero, Dictadura*.[4] Yet despite Viñas´ valuable contributions, a single comprehensive study on the economic relationship between Nazi Germany and Franco Spain is still lacking, a gap which this thesis intends to fill.

Although the Spanish Civil War has been a regular subject of research for the last fifty years, and publications are abundant, studies of Germany´s intervention in the war - and particularly of the economic aspect of her involvement - have all suffered from a number of problems. The first major publication on Germany and the Spanish Civil War, by Manfred Merkes, came out in 1961 and was based on little more than published German Foreign Office documents.[5] Published just over ten years later, Hans-Henning Abendroth´s book *Hitler in der spanischen Arena* certainly

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[2]A. Viñas, *La Alemania Nazi y el 18 de Julio, antecedentes de la intervención alemana en la guerra civil española*, Madrid:1974 (1st ed.) and 1976 (2nd ed.).
[3]A. Viñas et al., *Política Comercial Exterior en España, 1931-1975*, Madrid:1979.
[4]A. Viñas, *Guerra, Dinero, Dictadura. Ayuda fascista y autarquía en la España de Franco*, Barcelona:1984.
[5]M. Merkes, *Die deutsche Politik gegenüber dem spanischen Bürgerkrieg 1936-1939*, Bonn:1961.

constituted a major improvement, particularly in his use of a much wider selection of primary sources, including many British documents.[6] The most recent and, despite some errors, certainly most useful book yet on Germany and Spain during the Spanish Civil War dates back to 1989. Written by Robert Whealey, a very industrious researcher of Germany´s role in the Spanish Civil War,[7] Hitler and Spain enjoys the benefit of a much increased selection of documents. Although quite selective in his choice of documents, Whealey draws from a wealth of sources, particularly some of the Spanish archives, as well as American archives. All of these monographs examine the economic relationship between Germany and Franco Spain as part of a general examination of the relations between the two states. Even Whealey´s chapter on the economic aspects contains some gaps and omissions which this study intends to fill.

Despite the obvious shortcomings of two studies which concentrate almost exclusively on the economic relationship it would be wrong to ignore these. Glenn Harper´s short study from 1967, aptly entitled German Economic Policy in Spain during the Spanish Civil War, is the only monograph available in English. A useful publication at the time, it has now been largely superseded owing to the very limited amount of primary evidence used.[8] Other attempts to concentrate solely on the economic aspect of the relationship between Germany and Franco Spain had been undertaken by Marxist historians in the German Democratic Republic before its recent demise. These historians tended to focus more upon the development and nature of the economic relationship between the two

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[6]H.-H. Abendroth, *Hitler in der spanischen Arena*, Paderborn:1973.

[7]This is particularly true of Whealey´s examination of Nazi attempts to build up a mining and company empire in Franco Spain (R. Whealey, Hitler and Spain. The Nazi role in the Spanish Civil War, Lexington:1989) See also D. Smyth´s review of Whealey´s book in European History Quarterly, 22, 1, Jan. 1992, pp.409-11.

[8]G.T. Harper, German Economic Policy in Spain during the Spanish Civil War, 1936-1939, The Hague/Paris:1967.

`fascist´ states than their western colleagues. Despite her ill-conceived attempt to prove that German industry directly influenced the decisions taken by the National Socialist regime in its economic policy towards Franco Spain, Marion Einhorn´s study still provides some interesting insights.[9] A short pamphlet by Wolfgang Schieder, a West German historian, is also worth of study. Although by no means a comprehensive study of the whole economic relationship, Schieder´s *Spanischer Bürgerkrieg und Vierjahresplan*, provides the first major attempt to examine the role of Hermann Göring and his Four-Year-Plan-Office in National Socialist planning and activities with regard to Nationalist Spain.[10] The importance of Göring´s `new responsibilities´ in Spain for increasing his influence over Germany´s economy is emphasized by Richard Overy, though he does not examine Göring´s further involvement in the economic relationship between Germany and Nationalist Spain.[11]

While there is a useful selection of literature on the general relationship between Germany and Franco Spain during the civil war period, there is a poverty of such literature for the period 1939-1945. A number of authors have concerned themselves with the question of a possible Spanish entry into the war in 1940-41, most notably Mathias Holst Ruiz and Denis Smyth, the former from a German angle, the latter from a British.[12] While Ruiz Holst virtually ignores the role of economic factors during that period, Smyth is

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[9]M. Einhorn, *Die ökonomischen Hintergründe der faschistischen deutschen Intervention in Spanien, 1936-1939*, Berlin:1962.

[10]W. Schieder, *Spanischer Bürgerkrieg und Vierjahresplan*, Darmstadt:1978; originally an essay in W. Schieder & C. Dipper (eds.), *Der Spanische Bürgerkrieg in der internationalen Politik (1936-1939)*, Munich:1976.

[11]R.J. Overy, Goering, The `Iron Man`, London et al.:1984, p.44.
Slightly more on Göring and his economic interest in Spain can be found in A. Kube, *Pour le Merité und Hakenkreuz, Hermann Göring im Dritten Reich*, Munich:1987, particularly pp. 163-166.

[12]M. Holst Ruiz, *Neutralität oder Kriegsbeteiligung? Die deutsch-spanischen Verhandlungen im Jahre 1940*, Pfaffenweiler:1986; D. Smyth, Diplomacy and Strategy of Survival, British policy and Franco´s Spain 1940-1941, Cambridge:1986. See also D. Detwiler, *Hitler, Franco and Gibraltar, Die Frage des spanischen Kriegseintritts in den zweiten Weltkrieg*, Wiesbaden:1962.

extremely interested in the economic and financial aspects of Britain´s relationship with Spain and the effect these had on Spain´s relationship with Germany. Yet, Smyth´s study suffers from a heavy reliance on British documents while virtually ignoring Spanish sources. While these two studies are mainly concerned with the first two to three years of World War Two, Klaus-Jörg Ruhl´s book *Spanien im Zweiten Weltkrieg* covers Spain´s relationship to Germany for the whole of the period 1940-1945. Despite its date of publication (1975) and the understandable lack of any Spanish documents, Ruhl´s study remains the most useful, indeed only, general examination of Nazi German relations with Franco Spain during the Second World War.[13] Yet, not even Ruhl´s detailed study can purport to provide a satisfactory analysis of the economic relationship between the two states.

Apart from Ruhl´s aforementioned article and Viñas´ research contribution, this thesis will therefore constitute the first major analysis of Nazi Germany´s economic relationship with Franco Spain during the whole of the period from 1936 to 1945. Several important questions will be identified and discussed concerning an economic relationship which developed almost exclusively in the context of war. In the first instance the thesis will analyse the origins of economic relations between the Nazi regime and the insurgent forces in Spain in the context of the early stages of Germany´s intervention in the Spanish Civil War. The first chapter will therefore set the scene by introducing the reader to the first organizational steps taken after Adolf Hitler had decided to support Franco. Most importantly, the foundation of HISMA in Spain and ROWAK in Germany will be discussed. Both companies became the centre-piece of Germany´s

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[13]K.-J. Ruhl, *Spanien im Zweiten Weltkrieg. Franco, die Falange und das "Dritte Reich"*, Hamburg:1975.

relations with the territory controlled by the insurgents in Spain. While HISMA´s role was eventually drastically reduced after the end of the civil war, ROWAK continued to be the pivot for nearly all commercial and financial transactions with Spain until Germany´s capitulation in 1945. An examination of HISMA/ROWAK, as well as HISMA´s successor in Spain, SOFINDUS, will therefore be at the heart of this thesis. Further important issues under discussion in Chapter I will include first National Socialist attempts at altering the structure of trade with Nationalist Spain. Both these attempts and the foundation of HISMA/ROWAK will be put into the context of the emerging new Four-Year-Plan in Germany and particular attention will be drawn to Hermann Göring´s role in the economic relations with Nationalist Spain.

The change in the structure of Germany´s trade with Spain, that is, a move away from fruit imports to an increase in imports of essential Spanish raw materials, impacted quite clearly on Germany´s main economic rival and main foreign investor in Spain, Britain. British mining companies, such as Rio Tinto and Orconera, controlled most of the important pyrite and iron ore mines in Spain. When these companies became the target of Nationalist requisitioning, and the forced export of their products to Germany was initiated, the British government was forced to react. These developments, concentrated mainly in late 1936 and 1937, constitute the main issue to be discussed in the second Chapter although another issue of greatest importance to Nazi Germany will also be examined in the same chapter. In 1937, Nazi officials involved in economic transactions with Nationalist Spain were only too aware that they were working under special conditions which were not likely to continue after the end of the civil war. Göring therefore actively encouraged HISMA´s attempts to establish a foothold in the Spanish economy, and most notably in its mining sector. In

the end, these attempts were channelled into one major drive to buy up numerous mining rights. This project, codenamed MONTANA, caused the first major disagreement between the Nationalist authorities and Nazi officials. Until its successful conclusion in late 1938 it provided the material for endless discussions and negotiations.

Chapter III focuses upon the developments at the end of the Spanish Civil War to the brief period of peace and finally to the first year of war in Europe. Apart from the reorganisation of German-owned companies in Spain and the foundation of SOFINDUS in late 1938, this chapter will evaluate economic aspects of the transitional period between April and August 1939. German and Spanish attempts to continue trade after the outbreak of war in September will also be assessed and will focus on two questions: How did the isolation of Spain from Germany affect economic decisions of the Spanish government? How did Britain react to Germany´s absence from the Spanish market?

In fact, the absence was only temporary. Following Germany´s defeat of France in summer 1940, Spanish-German economic relations quickly intensified. The fourth chapter of this thesis will consider the major aspects of Germany´s trade with Spain until mid-1944, with the exception of the developments surrounding the crucial raw material wolfram, the subject of Chapter V. Particular emphasis will be put on Germany´s constantly worsening trade deficit from 1941 onwards, and the attempt to alleviate this problem through an increase of supplies of German war *matériel*.

Nazi Germany´s burning interest in the crucial raw material wolfram, or tungsten, carries the major burden of responsibility for the trade deficit and the financial problems it experienced with regard to Spain, particularly in

1942 and 1943. Chapter V will not only examine the reasons for Germany´s need for wolfram, but also the results of the recognition of this fact by the Allies. A substantial part of this chapter is therefore taken up by an evaluation of the intense economic warfare which broke out over what became undoubtedly Spain´s single most important export product during World War II.

Finally, Chapter VI will describe the last remnants of German-Spanish trade from the Allied invasion of June 1944 to the end of the Second World War. Despite the total decline of the commercial relations between the two dictatorships, some developments involving, for instance, last-ditch attempts to send exports to Germany, justify an examination of this final episode in their relationship.

The conclusion will seek to recapitulate the important findings of the thesis. These findings are based on research which has brought together primary evidence far in excess of any previous study of Nazi German-Franco Spanish relations. Extensive primary materials have been examined in Germany, Spain and Great Britain to reveal the nature of the economic relationship of two states during the most dramatic period of both their history in the twentieth century. These are listed in the bibliography. Unfortunately, owing to the constraint of length of this thesis, it has not been possible to incorporate major sections on the role of individual German companies in the commercial relationship with Spain. It is anticipated that a subsequent publication will put right this possible shortcoming.

CHAPTER I

NAZI GERMANY´S INTERVENTION IN THE SPANISH CIVIL WAR AND THE FOUNDATION OF HISMA/ROWAK

On 21 July 1936, Johannes E.F. Bernhardt, a German citizen resident in Tetuán, the capital of Spanish Morocco, took the presumptuous step of offering his assistance to General Francisco Franco, one of the leaders of the Spanish rebellion against the Spanish government in Madrid.[14] The insurrection had commenced on 17 July in Spanish Morocco, and broke out on the Spanish mainland the following day. In the areas where it was successful, it was soon led by a directorate of three generals, with General Franco in control of Spain´s North African possessions and the Canaries, General Queipo de Llano in charge of the insurgents in Andalucia, and General Emilio Mola in northern Spain.[15]

Though Bernhardt´s decision seemed almost insolent considering the nonentity he was, it became the initial step towards Germany´s intervention in the Spanish Civil War. Tetuán turned out to be Bernhardt´s spring board for becoming one of the most influential Germans in Franco Spain during the civil war and the Second World War. His past, however, did not augur well for his future career.[16] In the 1920s, Bernhardt had experienced his ups and downs as a businessman. In fact, by the end of 1929 his career had reached rock bottom when his company in Hamburg collapsed and he was faced with several warrants for his arrest.[17] He therefore decided to leave Germany and seek his

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[14]BA R121/842, unsigned, undated report *Entwicklung vom Juli 1936 bis Dezember 1937*; A. Viñas, *La Alemania Nazi y el 18 de Julio*, (2nd ed.),p.279.
For the vast amount of publications on the Spanish Civil War, see bibliography to this thesis.
[15]M. Tuñón de Lara *et al.*, *La Guerra Civil Española 50 años despues*, Madrid:1985, p.205.
[16]The following information on Bernhardt´s life and career before the civil war is largely based on two publications by H.- H. Abendroth, *Hitler in der spanischen Arena*, Paderborn:1973, and A. Viñas, *La Alemania Nazi* (1st and 2nd eds.).
[17]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.40.

fortune abroad, more precisely, in Spanish Morocco. Once there, he immediately found employment in the small company H&O Wilmer, Sucesores de H. Tönnies in Larache. As sales director he contributed significantly to the expansion of the company, first to Tetuán - where it eventually moved its headquarters - and then to other locations in the protectorate. Gradually, the company widened its activities from its original export-import business and it came to act as a trade representative of several German companies, notably in the technical and scientific field. Close contacts with civilian and military authorities were established to promote and sell German products. Bernhardt was usually responsible for these sales which included cables, freezers, kitchen equipment, and electrical and optical goods. As he became also involved in the local production of practice targets for the Spanish artillery, he had plenty of opportunity to make himself acquainted with Spanish army officers. Significantly, these included many officers who were to play important roles in the rebellion against the Spanish government, most notably General Mola, Colonel Juan Yagüe Blanco, Colonel Juan Beigbeder y Atienza, and Colonel Carlos Asensio Cabanillas.[18]

In fact, Bernhardt´s decision to approach Franco was more likely based on his business contacts than on his position within the Nazi party organisation in Spanish Morocco with its small membership of between 30 and 35.[19] Having been a member of the Nazi party since early 1933,[20] Bernhardt apparently became a collaborator of the *Sicherheitsdienst* a year later.[21] At the time of Franco´s arrival in Spanish Morocco on 19 July 1936, Bernhardt was probably *Wirtschaftsstellenleiter* of the *Auslandsorganisation* (AO) in Tetuán although

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[18]A. Viñas, *La Alemania Nazi*, (2nd ed.), pp.292f.
[19]*Ibid*, p.281.
[20]According to a document in the German Federal Archive (BA NS9/105) Bernhardt joined the Nazi party on 4 January 1933 while Viñas cites 1 April as the correct date (based on information he received from the Berlin Document Centre, in A. Viñas, *La Alemania Nazi*, (2nd ed.), p.283).
[21]*Ibid*, p.291.

Viñas is convinced that Bernhardt´s exact responsibilities were not that clearly defined.[22] Yet, only when he had already offered his services to Franco, did he inform the local Nazi leader, Adolf Langenheim. By then Bernhardt had already received a positive response from Franco.[23] Despite the superior position of Langenheim, a man described by the British Consul-General in Tetuán as `virtually the German Consul´ in Spanish Morocco, it was Bernhardt who took the initiative.[24] He used the ensuing developments to emerge out of the obscurity of his work in Spanish Morocco.[25] Despite his presence at one of the most decisive moments in the development of the relationship between Nazi Germany and - what was to become - Franco Spain, Langenheim ceased to play a role of any significance.[26]

When Franco arrived in Spanish Morocco, he and his fellow insurgents did not expect that their rebellion would turn into a prolonged affair and, ultimately, into a full-scale civil war. However, within days the slow progress of the rebels on the mainland gave increased importance to the rapid availability of Franco´s troops in Spanish Morocco. Combining about 5,000 soldiers of the Spanish Foreign Legion, 17,000 Moorish *Regulares,* and 17,000 Spanish conscripts, they were regarded as the `best-trained, best-led, best-equipped, most sternly disciplined and combat-worthy troops in the Army.´[27]

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[22]BA R7/738, unsigned memorandum *Entstehung, Entwicklung und gegenwärtiger Stand des ROWAK/SOFINDUS - Konzerns*, 15/3/1940; see also H.- H. Abendroth, *Mittelsmann zwischen Franco und Hitler*, Marktheidenfeld:1978, p.10.
Viñas refers to an SS *Stammrollenauszug* from 13 May 1938 at the Berlin Document Centre, according to which Bernhardt was simply generally responsible for `matters of economic interest and the press´ (A. Viñas, *La Alemania Nazi*, (2nd ed.), pp.290f.).
[23]BA R121/842, unsigned, undated report *Entwicklung.*
[24]PRO FO371/20525/7487, Letter, Ernest Gye to FO, 31/7/1936. The German consul in Tetuán was Johannes Brosch.
[25]Abendroth claims that Bernhardt was more or less dragged into his role. This is clearly contradicted by his active involvement in the unfolding of events (H.- H. Abendroth, "Deutschlands Rolle im Spanischen Bürgerkrieg", in M. Funke (ed.), *Hitler, Deutschland und die Mächte*, Düsseldorf:1976, p.481).
[26]See below, p. 14.
[27]M. de Madariaga, "The intervention of Moroccan troops in the Spanish Civil War", in European History Quarterly 22, No.1, p.77.

Initially, it had been planned to ferry these troops across the Straits of Gibraltar on board of ships of the Spanish navy. However, the rebels had not anticipated that most of the Spanish seamen would act against rebel navy officers and take over their ships. The rebels only managed to transport several hundred Moroccan troops across before the sea route was blocked by ships loyal to the Republic.[28] Air transport, on the other hand, was limited by the lack of planes available to the insurgents.[29]

It was at this point that Bernhardt put himself at Franco´s disposal, and the general reacted immediately. He decided that Bernhardt, and Langenheim as the highest Nazi dignitary in Spanish Morocco, should deliver a message to the Nazi leadership in Germany. In his short letter to Adolf Hitler, Franco asked for ten transport planes, anti-aircraft machine guns, five fighter planes and some other equipment.[30] At the same time he also tried to contact the German military attaché in Paris, General Erich Kühlental, through one of his closest subordinate officers, Colonel Beigbeder.[31] In a telegram to Kühlental, which was communicated to the German Foreign Ministry on 23 July, Franco and Beigbeder asked for ten planes `for the transport of troops.´[32] The Ministry immediately decided against the request, added a comment to it and passed the telegram on to the Ministry of War.[33] The Foreign Ministry had no intention of involving Germany in the unfolding struggle in Spain. The arch-conservative

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[28]M. Tuñón de Lara et al., *La Guerra Civil Española*, p.202.
By 21 July two cruisers, two destroyers, three gunboats and seven submarines were blockading the coast of Spanish Morocco (H. Thomas, The Spanish Civil War, Penguin Books:1988, p.231; S. Payne, Politics and the Military in Modern Spain, Stanford:1967, p.353).
[29]Figures vary between 40 and 100 planes. See J. Coverdale, Italian Intervention in the Spanish Civil War, Princeton:1975, p.68; M. Tuñón de Lara, *La Guerra Civil Española*, p.205; J. Salas Larrazabal, *Intervención Extranjera en la Guerra de España*, Madrid:1974, p.63.
[30]A. Viñas, *La Alemania Nazi*, (2nd ed.), p.339.
[31]According to Viñas Beigbeder was the only officer close to Franco `who knew about and had contacts in Germany.´ Until one and a half years previously he had been Spanish military attaché in Berlin (A. Viñas, *La Alemania Nazi*, (2nd ed.), p.293).
[32]ADAP, D, III, doc.2, p.5, Telegram, Wegener (Tangier) to German Foreign Ministry, 22/7/1936 [author´s translation, C.L.]
[33]A. Viñas, *La Alemania Nazi*, (2nd ed.), p.323.

Foreign Minister, Baron Konstantin von Neurath, shared Hitler´s concern about the danger of the spread of communism and admitted as much with reference to the Spanish Civil War in December 1936:

`In the Spanish conflict Germany had predominantly the negative goal of not permitting the Iberian Peninsula to come under Bolshevist domination, which would involve the danger of its spreading to the rest of Western Europe.´[34]

Yet, one week after the outbreak of the rebellion, the Foreign Ministry was firmly against any kind of government involvement in the civil war. On 25 July Hans Heinrich Dieckhoff, director of the political section at the time and a future ambassador to Franco Spain, set out some of the reasons for the negative response to Franco´s request. According to his memorandum, which was written in reaction to the arrival of Franco´s envoys, the German colony in Spain and German merchant and war ships in Spanish waters would be under threat should it become known that Germany was supplying the rebels with weapons. It was also feared that international complications might arise if Germany interfered in a country with friendly links to France and Britain.[35]

However, events were already unfolding which would lead to the eventual intervention of Germany in the civil war. On 23 July Franco´s mission, consisting of Bernhardt, Langenheim and a Spanish representative, Captain Francisco Arranz Monasterio, left Tetuán for Berlin.[36] After their arrival in Berlin on 25 July, the two German envoys immediately met the head of the Nazi *Auslandsorganisation* (AO), Ernst Bohle. The message they conveyed to Bohle fell on fertile ground. Bohle was extremely keen to promote the position of the AO in the external affairs of the Reich. If the AO could ensure that Franco was

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[34]D. Smyth, "Reflex Reaction: Germany and the onset of the Spanish Civil War", in P. Preston (ed.), Revolution and War in Spain 1931-1939, London and New York:1984, p.257 (quoted from DGFP, D, III, doc.153).
[35]ADAP, D, III, doc.10, pp.11f., Memorandum by Dieckhoff, 25/7/1936; A. Viñas, *La Alemania Nazi*, (2nd ed.), p. 333.
[36]M. Tuñón de Lara, *La Guerra Civil Española*, p.131.

granted his request, it would triumph over its official rival, the Foreign Ministry, which had clearly rejected giving any help to the rebels. Bohle, however, realized that he was in no position to decide on such an important matter. He therefore arranged for a meeting with the Deputy *Führer*, Rudolf Hess.

After listening to Bernhardt and Langenheim, Hess concluded that only Hitler himself could decide on such an important issue. Consequently, he rang up Hitler, who was attending the Wagner Festival at Bayreuth. Hitler agreed to see both envoys and invited them to join him at Bayreuth. Citing an interview with Bernhardt, Abendroth emphasizes that, on the evening of 25 July, Hitler received Franco´s two German envoys in the presence of only one other person. This person, Dr. Kraneck, an AO official, was apparently completely ignored by Hitler. Evidently, Hitler´s crucial decision to help Franco was already taken when he invited Hermann Göring, General von Blomberg and Captain Coupette, commander of the Naval Shipping Administration Section of the *Oberkommando der Marine* (OKM), to join him and his guests.[37] Göring and von Blomberg were both initially reluctant to provide Franco with any help.[38] When Hitler then emphasized his decision in favour of Franco´s request, both duly changed their minds.

Under the code name *Unternehmen Feuerzauber* the organization of a support operation was immediately set into motion. Admiral Lindau and General Erhard Milch were ordered to join Hitler in Bayreuth and arrived on the morning of 26 July. After Lindau had been put in charge of the preparations for the transport operation, he left Hamburg on the same day. Back at the *Reichsluftfahrtministerium* (RLM), Milch put General Helmuth Wilberg in charge

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[37]H. - H. Abendroth, "Die deutsche Intervention im spanischen Bürgerkrieg. Ein Diskussionsbeitrag", in *Vierteljahreshefte für Zeitgeschichte*, 1 (1982), p.120.
[38]A. Viñas, "El Tercer Reich y el Estallido de la Guerra Civil", in *Historia 16*, 8, p.52; H.- H. Abendroth, "Die deutsche Intervention", pp.121 and 126; R. Proctor, Hitler´s Luftwaffe in the Spanish Civil War, Westport:1983, p.18.

of setting up *Sonderstab W* which was to be responsible for the organization of the whole supply operation.[39] The German intervention in Spain had commenced. Two questions have occupied historians of the Spanish Civil War ever since Hitler agreed to intervene in Spain. Firstly, whether the Nazi regime had been aware of the preparations for the military rebellion, and in this context particularly whether it helped in the preparations? And secondly, what were the reasons for Hitler´s decision to intervene? While this second question is of particular relevance to this study, the first ought not to be ignored.

In his pioneering study *La Alemania Nazi y el 18 de Julio* Angel Viñas has shown in detail that Hitler´s decision at Bayreuth was taken quickly and spontaneously and that contacts between German officials and the leaders of the rebellion-to-come were negligible in the years immediately before 1936. Hitler seemed to have had no interest in Spain, though he had admired Primo de Rivera´s coup in 1923, and the close economic and military contacts of the twenties had almost disappeared in the years of the Second Spanish Republic.[40] Wolfgang Schieder confirms the very minor role Spain played in Hitler´s long-term planning right up to the military coup.[41] Yet, there have been attempts in the past to prove that some of the Spanish rebels not only had contacts with individual German officials before the coup, but that Germany was aware of the plans for a rebellion and that she was also involved in the preparations for it. Marxist historians, most notably Marion Einhorn, are united in their belief that German diplomats and the Nazi leadership had worked towards the rebellion for years and that the decision to intervene was not spontaneous but planned.[42]

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[39]A. Viñas, "El Tercer Reich", p.54.
For a detailed description of the developments in Germany directly after the meeting at Bayreuth see the epilogue to A. Viñas, *La Alemania Nazi*, (2nd ed.).
[40]A. Viñas, *La Alemania Nazi, passim.*
[41]W. Schieder, *Spanischer Bürgerkrieg und Vierjahresplan*, p.330.
[42]See M. Einhorn, *Die ökonomischen Hintergründe der faschistischen deutschen Intervention in Spanien 1936-1939*, pp.87 and 89.

Other historians have also subscribed to this view. Dante Puzzo insists that in early 1936 General José Sanjurjo, the designated leader of the coup, visited Germany and

> left the Reich with the promise of German support for the contemplated military insurrection against the Spanish Republic, including German aircraft to be used in transporting troops from Morocco to Spain if it should develop that the Spanish fleet remained loyal to the Republic.[43]

However, quite apart from the fact that Puzzo cites the wrong date for Sanjurjo´s visit,[44] his theory does not fit in with the facts about the plans of the Spanish generals. They did not contemplate that the Spanish navy might remain loyal to the Republic and saw no need to arrange for German aircraft. The insurgents were clearly convinced that the navy would be on their side. Johannes Bernhardt´s activities before the insurrection are of particular interest to the American historian Stanley Payne. Payne does not claim that German officials were instrumental in the preparations for the rebellion, but he has tried to prove that Bernhardt was already involved in the activities of anti-Republican plotters before the coup. Allegedly, Bernhardt had been informed of a conspiracy by Falangists in spring 1936. Payne argues that Bernhardt visited Berlin in June 1936 `to convince Nazi officials that Germany should support the projected rebellion.´[45] Despite their extensive examination of Bernhardt´s life and career, neither Viñas nor Abendroth make any mention of such an involvement. The author of this study has also failed to find any evidence to corroborate Payne´s claim.

Viñas does not deny that contacts between individual Germans and future leaders, participants or just sympathizers of the insurrection had taken place

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[43]D. Puzzo, Spain and the Great Powers 1936-1941, New York and London:1962, p.47.
[44]According to Puzzo, Sanjurjo visited Berlin in February1936. The correct date is March 1936 (A. Viñas, *La Alemania Nazi*, (2nd ed.), p.236).
[45]S. Payne, Politics and the Military, p.355f. (based on Charles Foltz Jr., The Masquerade in Spain, Boston:1948, pp.46f.).

after Hitler´s *Machtergreifung.* The most mysterious contact is probably the case of Josef Veltjens, a World War I flying ace, and employee of a company with a major interest in arms sales since the late 1920s. Veltjens had become a member of the Nazi party on 1 August 1929, but was expelled, and blacklisted, on Hitler´s personal order in 1931. Despite Göring´s apparent interest in having him readmitted, he was still excluded in July 1937.[46] Despite a lack of conclusive evidence, there is a distinct possibility that Veltjens had some form of contact with General Emilio Mola´s ring of conspirators, possibly with Mola himself before the actual coup. Veltjens´ commercial agents in Spain were apparently approached about the sale of German arms to the conspirators. The main piece of evidence indicating such contacts is contained in a letter from von Bülow at the Foreign Ministry to Voelckers, counsellor at the German embassy in Spain. Dated 6 July 1936, it reveals that Spanish Fascists had negotiated with `Herr Feltjen´ (sic!) about the secret smuggling of weapons from Germany. The Ministry, however, had `not the slightest interest in it.´[47] Although Veltjens did eventually become heavily involved in Germany´s intervention in the Spanish Civil War,[48] the vital fact remains that Hitler´s decision to help Franco was not related to past contacts between Germans, official and private, and Spanish conspirators. Unless new evidence emerges, it has to be concluded that Germany´s direct involvement with the rebellion in Spain started with Hitler´s decision on 25 July 1936.

The second question is of more direct interest to this study as some historians have in the past - wrongly - insisted that economic considerations

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[46]A. Viñas, *La Alemania Nazi*, (2nd ed.), pp.139f.
[47]DGFP, D, III, p.1
For information on Veltjens´ pre-civil war career see A. Viñas, *La Alemania Nazi*, (2nd ed.), pp.138ff. and 274f.; R. Whealey, Hitler and Spain, p.81; H.- H. Abendroth, *Hitler in der spanischen Arena*, pp.19f.
[48]See below,page 44.

played a crucial role in Hitler´s decision.[49] In fact, today there seems to be general agreement that economic considerations did not account for Hitler´s initial decision.[50] Undoubtedly, Hitler´s foremost motive was ideological. From the information he had received from various sources, but particularly from Bernhardt and Langenheim, he concluded that he had to help the rebels to save Spain from Communism.[51] Explaining his decision to an initially reluctant Joachim von Ribbentrop, Hitler emphasized `that Germany could not accept a Communist Spain under any circumstances.´[52] In his ideological motivation to intervene in Spain Hitler was in agreement with Mussolini who insisted that `Bolshevism in Spain would mean Bolshevism in France, Bolshevism at Italy´s back, and danger of Bolshevisation of Europe.´[53] Ernst von Weizsäcker used a similar line of argument when he concluded that `a red neighbour to France would, *realpolitisch,* constitute a negative factor for Germany´s policies."[54] If this argument was taken in reverse, it could be concluded that the destruction of the Popular Front government in Spain might have a negative impact on the recently elected French Popular Front.[55]

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[49]See, for example, G. Harper, German Economic Policy in Spain, pp.16f.; D. Puzzo, Spain and the Great Powers, pp.43f.; G. Weinberg, The Foreign Policy of Hitler´s Germany I, Chicago:1970, p.289; H. Dahms, *La Guerra Española de 1936*, Madrid:1966, p.169.

[50]See Bernhardt´s own statement to Abendroth, in H.- H. Abendroth, *Mittelsmann*, pp.32f., and "Deutschlands Rolle", p.481; A. Viñas, *La Alemania Nazi*, (1st ed.), pp.233f.

[51]H.- H. Abendroth, *Mittelsmann*, p.32; A. Viñas, *La Alemania Nazi*, (1st ed.), p.62; G. Stone, "The European Great Powers and the Spanish Civil War, 1936-1939", in E. Robertson and R. Boyce (eds.), Paths to War, New Essays on the origins of the Second World War, London and Basingstoke:1989, pp.200f.; A. Adamthwaite, The Making of the Second World War, London:1979, p.55.

[52]Hitler to Ribbentrop, 26/7/1936, in J. v. Ribbentrop, *Zwischen London und Moskau, Erinnerungen und letzte Aufzeichnungen*, Leoni-am-Starnberger See:1953, p.88 [author´s translation, C.L.].
Later, Hitler apparently argued that he had not been hostile to a Spanish form of socialism. Yet, he nevertheless decided to help Franco because he had feared that Spain would come to be a "satellite" of the Soviet Union (Hitler to his architect Hermann Giesler, quoted from H. Gieser, *Ein anderer Hitler*, in R. Zitelmann, *Hitler, Selbstverständnis eines Revolutionärs*, Darmstadt:1990, p.487).

[53]G. Stone, "The European Great Powers", p.201.

[54]L. Hill, *Die Weizsäcker-Papiere, 1933-1950*, Frankfurt/Main:1974, p.104 [author´s translation, C.L.].

[55]R. Whealey, "Foreign Intervention in the Spanish Civil War", in R. Carr (ed.), The Republic and the Civil War in Spain, London and Basingstoke:1971, p.215.

Moreover, the ideological argument in favour of supporting an insurrection in Spain was closely related to strategic considerations. Victory for the francophile Popular Front in Spain would strengthen the strategic position of France, particularly in the context of Spain´s usefulness as a land bridge to the French colonies, and troops, in North Africa. It might even give the Soviet Union another ally in Western Europe. Success for the insurrection, however, might cause the desirable effect of the French Republic surrounded by potentially hostile fascist or semi-fascist states. Moreover, a prolonged conflict in Spain might also divert French and British attention from Hitler´s ambitions in the East.[56]

While Hitler had important reasons for initiating Germany´s intervention in favour of Franco and while economic considerations did not contribute to Hitler´s initial decision, they achieved greater significance soon after the meeting at Bayreuth. As mentioned previously, the first organizational step Hitler ordered was the foundation of *Sonderstab W* under General Wilberg. On Wilberg´s orders a freight contracting company in Hamburg, Mathias Rohde & Co., which had worked for the German navy on previous occasions, was employed to provide ships for the secret shipment of supplies to Spain. In the meantime, Bernhardt and his fellow envoys arrived back in Tetuán on 28 July.[57] Alfred Henke, their pilot, immediately took the first German transport of rebel troops over the Straits to Seville.[58] One of Berlin´s main concerns was the camouflaging of the German supply and transport operations. With Henke´s plane, this involved simply the removal of the symbols of nationality, but for the supplies which Hitler had promised at Bayreuth a more organized system had to be introduced. In the event, the problem was solved by founding a private

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[56]In December 1936 Hitler apparently argued `that Spain was a convenient sideshow which absorbed the energies of the other Great Powers, thus leaving Germany a freer hand to pursue its ambitions in the East´ (R. Whealey, "Foreign Intervention", p.219).
[57]A. Viñas, *La Alemania Nazi*, (2nd ed.), pp.385 and 392; R. Whealey, Hitler and Spain, p.7.
[58]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.41.

company which, being officially Spanish, would handle all the operational details.

Registered under the name of Carranza & Bernhardt, Transportes en General, with Fernando de Carranza y Fernández Reguera, a retired navy captain and friend of Franco, and Bernhardt as joint owners, it became better known under the name of HISMA, an abbreviation of its commercial name Sociedad Hispano-Marroqui de Transportes, Sociedad Limitada.[59] HISMA´s rise to its ultimate position of virtual monopolistic representation of Germany´s economic interests in Spain was officially initiated when the company was registered at Tetuán on 31 July 1936. As its first main task HISMA was simply supposed to act as an `administrative organization and payments office for German help given to the Nationalist movement of Spain.´ In practice, this included the organization of the transportation of Franco´s troops and their equipment to the mainland, the camouflaging of these transports, and the arranging of the acquisition of additional war *matériel* from private companies. Yet, due to the eventual constant increase in Nationalist requests, HISMA´s role did not remain limited to the administration of the initial small amount of German aid. Parallel to the growth of the scale of German intervention, HISMA´s size and influence was to grow over the course of the following year. As HISMA´s sole managing director with full administrative authority, Bernhardt became the main individual beneficiary of its expansion.[60]

HISMA´s foundation on 31 July coincided with the departure of the first German ship, the *Usaramo*, with material destined for Franco. It left Hamburg

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[59]BA R7/738, unsigned memorandum *Entstehung*,15/3/1940; BA R121/842, unsigned, undated report *Entwicklung*; A. Viñas, *La Alemania Nazi*, (2nd ed.), pp.385ff.
The name HISMA can apparently be put down to a suggestion made by Franco (see H.- H. Abendroth, *Mittlelsmann*, p.41).
[60]BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940; BA R121/842, unsigned, undated report *Entwicklung*.

with 85 passengers, including the future military head of HISMA, Major Alexander von Scheele,[61] and 773 items of cargo with a total weight of about 100 tons.[62] These items included ten Junkers-52, six Heinkel-51, anti-aircraft guns, bombs, ammunition, and various other pieces of equipment for the crews of the aircraft which were to transport Franco´s troops across the Straits.[63] At the same time, a further ten Junkers-52 were already on their way to Nationalist Spain. On 2 August the first of these planes landed in Seville. From there they proceeded immediately to Tetuán and commenced with the transport of Franco´s troops to Jerez de Frontera and Seville.[64]

By the second week of October German planes had transported 13,523 Moroccan troops and 270,100 kg of war *matériel* across the Straits.[65] It was the first major air lift in history and its impact was enhanced by the Italian help Franco received in addition to German support. On 28 July Mussolini had decided in favour of sending war *matériel* to Franco and the first supply ship with ammunition on board left Italy the day after. Twelve Savoia-81 aircraft followed on 30 July, though only nine reached Spanish Morocco.[66] On 7 August Rome dispatched a further 27 fighter planes, five tanks, 40 machine guns, 12 anti-aircraft guns as well as ammunition, bombs, aviation fuel and lubricants to the rebels.[67] Although a lull in Italian supply shipments occurred until the end of the month, this did not indicate that the purpose of Italian help had been achieved. While the arrival of Franco´s troops helped to ensure the

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[61]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.41; R. Whealey, Hitler and Spain, p.74.
[62]BA/MA RM20/1222, First entry in list *Sonderdampfer nach Spanien bis einschliesslich 5.1.1937*.
[63]BA/MA RL2 IV/1 D1, Report about *Unternehmen Feuerzauber*, by General Schweickhard, 8/3/1940; BA/MA RM20/1222 ; A. Viñas, *La Alemania Nazi*, (2nd ed.), p.392; M. Tuñón de Lara et al., *La Guerra Civil Española*, p.132.
[64]BA R121/842, unsigned, undated report *Entwicklung.*
[65]R. Whealey, "Foreign Intervention", p.217.
[66]For the events surrounding Italy´s intervention in the Spanish Civil War see J. Coverdale, Italian Intervention; M. Tuñón de Lara, *La Guerra Civil Española*; *Historia 16*, 8.
Two Savoias had to make emergency landings in French Morocco which led to the disintegration of the secrecy of the whole operation.
[67]J. Coverdale, Italian Intervention, p.87.

conquest of the south west of Spain in August, the Republic was far from defeated.

Nevertheless, the military situation of the Republic deteriorated steadily. The capture of Badajoz on 14 August had given the Nationalists unrestricted access to Portugal which proved to be an extremely helpful ally of the Nationalists, albeit under the cover of formal neutrality.[68] In early August 1936, Franco´s brother, Nicolás Franco, established himself as Franco´s procurement officer in Lisbon under the cover name of Aurelio Fernando Aguilar.[69] Together with José Maria Gil Robles he went on to organize supplies, propaganda and financial assistance for the Nationalists.[70] Nicolás Franco thus established himself as a significant link to Germany, which started to ship material to Lisbon for further transport to Nationalist Spain in August 1936.[71] HISMA actively sought contact with the Salazar government to arrange for such operations. On 13 August, the *Kamerun* left Hamburg, followed by the *Wigbert* on the following day. Both ships were destined to transport their cargoes - mainly aviation gasoline, bombs, ammunition and two Junkers-52 - to two Nationalist ports, Cadiz and Vigo, respectively.[72] In the event, following a visit of Bernhardt to Lisbon where he took care of the operation, both ships unloaded their cargo in Lisbon.[73] The British government was not pleased about Portugal´s cooperation in supply operations for Franco. Yet, inspite of the pressure it put on Lisbon to keep out of the conflict,[74] Portugal continued to be a conduit for

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[68]On German knowledge of the attitude of the Portuguese government see ADAP, D, III, doc.25, pp.22f., Letter, Welczeck to Dieckhoff, 2/8/1936.
[69]ADAP, D, III, doc.26, p.24, Letter, Du Moulin to German Foreign Ministry, 3/8/1936.
[70]G. Stone, The oldest Ally, Ph.D. Thesis, University of London:1986, p.13.
[71]In April 1938 Nicolás Franco was officially appointed as Franco Spain´s ambassador at Lisbon (G. Stone, The oldest Ally, p.20).
[72]BA/MA RM20/1222, *Sonderdampfer nach Spanien bis einschließlich 5.1.1937* ; M. Tuñón de Lara, *La Guerra Civil Española*; p.137.
[73]ADAP, D, III, doc.52, p.47, Letter, Du Moulin to German Foreign Ministry, 22/8/1936; A. Viñas, *Guerra, Dinero, Dictadura*, pp.56f.
[74]It appears that the Portuguese authorities asked the *Usaramo* to leave Lisbon when she tried to unload a cargo of supplies for Franco in early September. The German navy command

goods destined for the Nationalists. In fact, according to British Intelligence approximately 320,000 rifles and 555,000 revolvers were dispatched from Germany via Portugal to the Nationalist forces between January 1937 and August 1938.[75]

Obviously, Germany did not stop supplies to Franco after the initial contingent. Why did Germany continue to support Franco, even after the initial hope of a swift Nationalist victory had been dashed? There was no doubt in Hitler´s mind that supplies should be sent until the air lift was completed. However, the Nazi regime had to take a crucial decision on whether they would carry on, and possibly substantially increase, their intervention beyond the completion of the air lift. In the end, the decision was in Franco´s favour. According to Abendroth, Hitler finally decided on 24 August that `General Franco should be supported with supplies and militarily as much as possible. Any active German participation in the fighting, however, should not take place for the time being.´[76] The emphasis in the second part of the decision appeared to have been on `for the time being.´ A possible future military involvement by German troops was thus not necessarily excluded.

By the beginning of August, Franco had moved his headquarters to Seville, where most of his Moroccan troops were being landed. On 7 August HISMA duly established its second branch there in a requisitioned hotel. Telephone lines to Franco´s and Queipo de Llano´s headquarters were immediately laid. Indeed, the establishment of HISMA branches close to Franco´s respective headquarters became a pattern for the entire civil war.[77] Initially, this organizational behaviour could be explained by the fact that Hitler had opted for

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informed the Foreign Ministry that British pressure was responsible for this decision (ADAP, D, III, doc.77, p.67; see also G. Stone, The oldest Ally, p.15).

[75]G. Stone, The oldest Ally, p.15.

[76]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.53 [author´s translation, C.L.].

[77]BA R121/842, unsigned, undated report *Entwicklung.*

Franco as the main recipient of German aid. Once Franco had been embraced as Head of State and Generalissimo by the Nationalist *Junta de Defensa Nacional* on 29 September 1936, HISMA´s close proximity to the newly established leader of the Nationalist troops and territory made obviously even more sense. Evidently, it was also in Franco´s interest to be able to communicate his supply requirements to the relevant German authority as quickly as possible.

Increasingly, other factors came to influence the relationship between HISMA and Franco. When it dawned on the Nazi leadership that the rebels would need Germany´s support for a far longer period, more detailed consideration was given to the problem of Franco´s mounting debts and the possible economic benefits which might arise. On 30 July Göring, whom Hitler had put in charge of the Spanish operation, was already talking about the payment of German deliveries of war *matériel* with iron ore.[78] It is easy to see why Göring would have considered such a form of payment. Madrid, and with it Spain´s precious metal reserves worth the equivalent of a staggering 635 tons of fine gold, was still in the hands of the Republic.[79] As early as 25 July the Republic started to sell gold to the Bank of France to buy war *matériel.*[80] While the Republic continued to sell gold to France, it also commenced to ship increasing amounts of gold to the Soviet Union from October 1936 onwards to finance Soviet war *matériel* supplies.[81]

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[78]A. Viñas, *La Alemania Nazi*, (1st ed.), p.434; H.- H. Abendroth, "Deutschlands Rolle", p.481. According to Whealey `in July 1936, at the start of German aid to Franco, Hitler expressly ordered Göring to secure economic rewards´ (R. Whealey, Hitler and Spain, p.72, no source for information given).

[79]A. Viñas, *Guerra, Dinero, Dictadura*, p.170.

[80]Until March 1937, "at least 26.5 per cent of the total transferable gold reserves held in Madrid at the outbreak of the Civil War", was sold to the Bank of France (A. Viñas, "Gold, the Soviet Union, and the Spanish Civil War", in European Studies Review, 9 (1979), p.108).

[81]A. Viñas, "Gold", pp.112 ff.

While the Republic relied on the gold reserves of the Bank of Spain to finance most of its war effort, the Nationalists had to find other ways to pay for their supplies.[82] As Robert Whealey has pointed out the Nationalists `had the backing of millionaires´ (such as Juan March who put up £ 1 million for the first 12 Italian planes) and, in general, they found it easier to obtain credit from international financial circles than the Republican government. One British report at the end of the civil war claimed that domestic and foreign securities valued at between £100 and £200 million were lent to Franco during the course of the civil war although these figures appear somewhat exaggerated.[83] Both the Nationalists and the Republicans sought to compel private persons to hand over all foreign currency holdings and valuables they possessed, though this apparently accounted for only a small percentage of the total financial needs.[84] Far more important was the attempt by both sides to continue with the export of as many international trade commodities as possible. As a whole, 11 per cent of the Nationalist civil war budget was made up of foreign exchange from current exports, profits and dividends on foreign investments owned by wealthy Nationalist partisans, seized precious metals and repatriated earnings of Spaniards working overseas.[85]

Yet, this leaves a substantial share of the Nationalist budget unaccounted for. The Nationalist regime certainly spent more than its revenue allowed.

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[82]For the financing of the civil war see A. Viñas, *Guerra, Dinero, Dictadura*; *Politica Comercial Exterior de España* I, "Gold", and "The financing of the Spanish Civil War", in P. Preston (ed.), Revolution and War in Spain 1931-1939. See also R. Whealey, Hitler and Spain, and "How Franco financed his war - Reconsidered", in M. Blinkhorn, Spain in Conflict 1931-1939, London:1986.

[83]R. Whealey, Hitler and Spain, p.73 (and p.12); R. Whealey, "How Franco financed his war - Reconsidered", p.247 (based on PRO FO371/24132/5334); see A. Viñas, *Política Comercial Exterior*, p.289 for detailed accounts of individual loans granted to Franco during the civil war.

[84]A. Viñas, "The financing of the Spanish Civil War", p.279; A. Viñas, "Gold", p.120. The value of jewels and coins seized by the Nationalists plus donations of stocks and bonds amounted to Pts 410 million (R. Whealey, "How Franco financed his war - Reconsidered", p.257, Footnote 3).

[85]R. Whealey, "How Franco financed his war - Reconsidered", p.244; J. Edwards, The British Government and the Spanish Civil War, London and Basingstoke:1979, p.68.

Table 1: INCOME AND EXPENDITURE OF THE NATIONALIST ADMINISTRATION, 1936-1939, (in mill Pts)

	Income	Expenditure
2nd Half of 1936	396	819
1st Half of 1937	552	1291
2nd Half of 1937	680	2252
1st Half of 1938	791	2602
2nd Half of 1938	847	3258
1st Quarter of 1939	418	1722

Source: BA R7/3374.

In fact, Franco amassed huge debts with the two Fascist powers. Both Germany and Italy supplied Franco with increasing amounts of war *matériel* on credit. A marked difference, however, developed in the way both Italy and Germany were trying to extract payments for their supplies and services. During the war, Italy remained largely lenient in her demands for payment of the mounting debt. This seems quite astounding considering that estimations for the eventual total Nationalist debt to Italy range from between 6,800 and 8,668 million Lira.[86] In fact, Mussolini´s somewhat generous attitude contrasts starkly with the aggressive way the Nazi regime tried to secure repayments during the course of the civil war.

Increasingly, German demands for repayment took on the form of demands for Spanish raw materials, though an interest in payment in foreign currency was also frequently expressed.[87] If Göring´s responsibilities within the German government are considered, it seems not surprising that he happened to be the first member of the higher echelons of the Nazi regime to express interest in

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[86]First figure in R. Whealey, "How Franco financed his war - Reconsidered", p.244; second figure in A. Viñas, "The financing of the Spanish Civil War", p.281.
[87]See for example AHN PG/DGA192, Letter, HISMA to N. Franco, 23/4/1937.

Spanish raw materials. His involvement in the running of Germany´s economy had made him only too aware of the dire raw material supply situation and the lack of foreign currency. In fact, three months before the outbreak of the conflict Hitler had instructed Göring to look into all necessary measures for an improvement of the raw material and foreign currency situation. Shortly afterwards he was then put in charge of a raw material and foreign currency staff.[88] As Spain produced considerable amounts of a number of important raw materials, Göring concluded that payment in raw materials could only be beneficial to Germany´s economy. Besides, any increase in supplies to Germany could be detrimental to the traditional recipients of Spanish raw materials, Britain and France.

Spain produced substantial amounts of pyrites which constitute an important source of sulphur, as well as iron, copper, lead and zinc.[89] In 1935, pyrite production in Spain amounted to 2.5 million tons, roughly 20 per cent of world pyrites production. In the same year, Spain also produced a total of 2,591,570 tons of iron ore. One of Spain´s biggest assets was its mercury mining operation at Almadén which supplied about 80 per cent of the world´s mercury.[90] Other minerals of interest to the Germans were manganese and wolfram (tungsten), the latter achieving particular importance during the Second World War.[91]

As a consequence of the growing interest in Spanish raw materials, Göring soon ordered an extension to HISMA´s original purpose. While the proximity to Franco´s headquarters had been the initial motive in the establishment of

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[88]G. Thomas, *Geschichte der deutschen Wehr- und Rüstungswirtschaft*, Boppard:1966, pp.111f.
[89]C. Harvey, "Politics and Pyrites during the Spanish Civil War", in Economic History Review, XXXI, No.1, p.92.
[90]J. Edwards, The British Government and the Spanish Civil War, pp. 82, 92 and 97.
[91]See below, Chapter V.

HISMA offices, economic factors were prominent in the opening of other HISMA branches. In fact, whenever Franco´s troops conquered new areas of Spain, HISMA was always quick off the mark to establish itself in important centres. An outstanding example for this deployment tactic was the case of Bilbao, a new HISMA branch in August 1937 immediately after the conquest of the Basque city.[92] Yet, HISMA not only constantly extended its geographical sphere of influence, but it also enhanced its influence by establishing links with those individuals and organizations involved in Germany´s intervention in Spain.

During the course of August 1936 the organizational network behind Germany´s intervention in Spain was increasingly taking shape. On 25 August Lieutnant Colonel Walter Warlimont was ordered to meet von Blomberg. During the meeting he was informed that he would be sent to Spain on a very crucial mission. In Spain, he was told, he would have to act as the representative of Germany´s armed forces at Franco´s headquarters. He would be in overall command of Germany´s troops in Spain and he was supposed to advise Franco on further German supplies of war *matériel.*[93] His position at the time as Head of the Economic Department of the *Heereswaffenamt* was probably influential in his new appointment in that one of the tasks mentioned in von Blomberg´s orders concerned the `safeguarding of German interests in the ... economic sphere.´[94] Interviewed by Viñas nearly three decades after the Second World War, Warlimont revealed that he was told that the

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[92]BA R121/842, unsigned, undated report *Entwicklung.*

[93]A. Viñas, *Guerra, Dinero, Dictadura*, p.59 (based on an unpublished document by W. Warlimont, *Die deutsche Beteiligung am spanischen Bürgerkrieg und einige spätere Folgerungen*).

[94]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.124 (based on Navy doc. PG 33308 in BA/MA). When interviewed by Proctor in 1973, Warlimont produced and translated a copy of von Blomberg´s orders, dated 31 August 1936. According to this document his task was to `keep in mind German interests in the fields of military-political and economic matters´ (R. Proctor, Hitler´s Luftwaffe, pp.35f.).

aforementioned economic task included the repayment of German supplies of war *matériel* with supplies of Spanish raw materials.[95]

Warlimont arrived in Spain on 5 September 1936. Prior to his arrival in Spain he had accompanied Admiral Wilhelm Canaris, Head of German Intelligence, to Italy to meet General Mario Roatta, Canaris´ Italian counterpart. In this, their second meeting on the issue of the conflict in Spain, both sides agreed that all supplies should only go to Franco, and that supplies would be supervised by the Italian and German military.[96] Payment would have to be in foreign currency or goods. Despite the future lack of cooperation between Germany and Italy on such financial issues, both sides evidently agreed that Warlimont and his Italian counterpart would be responsible to work out the payment procedure with Franco.[97]

Once in Spain, it took Warlimont little time to realize that the growing magnitude of the economic element of his mission demanded its separation from his political and military tasks. What had originally been envisaged as simply the question of Spanish payment for German supplies, had really turned into the question of the whole economic relationship between the territory controlled by the Nationalists and Germany. In the official post-civil war report on *Unternehmen Feuerzauber* the motives for Warlimont´s decision to reduce his area of responsibility are revealed.

> The underlying aim to Lieutnant Colonel Warlimont´s task, i.e. the combination of military leadership with promotion and direction of economic services rendered by the other side, had not been successful. Combining these two completely different tasks was intended to achieve the payment of German

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[95]A. Viñas, *Guerra, Dinero, Dictadura*, p.59.
[96]R. Proctor, Hitler´s Luftwaffe, p.36; M. Merkes, *Die deutsche Politik gegenüber dem spanischen Bürgerkrieg*, p.31.
The first Canaris-Roatta meeting on the issue of Spain took place on 4 August, the second on 27 August 1936. On the first meeting see A. Viñas, *La Alemania Nazi*, (2nd ed.),pp.354f.
[97]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.124.

costs for personnel and *matériel* with economic services from the Nationalists. These services, however, extended to all areas of German-Spanish trade and could therefore not be administrated by the commander of Germany´s units of volunteers. Even less so could he use them as a subject in his on-going negotiations with General Franco.[98]

Thus, only two weeks after his arrival Warlimont made up his mind to hand over all economic matters to HISMA.[99] Warlimont first approached General Wilberg on this matter, and after having received his approval, he informed Göring about his conclusion.[100] This led to a meeting between Göring, Warlimont, Bernhardt and General Georg Thomas at the end of the month.

Considering Bernhardt´s dominant position within HISMA, his reaction to the unfolding developments is quite revealing. Only a month before the meeting, Bernhardt had not seemed terribly keen on using Franco´s dependence on German aid to get involved in economic matters. In fact, a representative of German industry´s Export Association for War *Matériel* (AGK)[101], Eberhard Messerschmidt, had expressed his indignation at HISMA´s apparent lack of interest in economic matters. He demanded that Germany should ask for something in return for her aid to Franco. To his chagrin, he realized that Bernhardt had only recently tried to prevent possible Nationalist copper deliveries to Germany on the grounds that this might antagonize Franco.[102] Yet, Bernhardt´s fears were seemingly unfounded. Captain Hans

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[98]BA/MA RL2 IV/1 D1, Report about *Unternehmen Feuerzauber*, by General Schweickhard, 8/3/1940 (author´s translation, C.L.).
[99]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.124.
[100]BA/MA RL2 IV/I D1, Report about *Unternehmen Feuerzauber*, by General Schweickhard, 8/3/1940.
[101]The AGK (*Ausfuhrgemeinschaft für Kriegsmaterial*) was founded in November 1935. By 1936, it had been joined by 75 German armaments producers (M. Einhorn, *Die ökonomischen Hintergründe*, p.120).
[102]On 28 August 1936 Messerschmidt had arrived in Lisbon on his way to Nationalist Spain where he intended to undertake a fact-finding mission about direct war *matériel* export opportunities. However, to his disappointment, he had to acknowledge that HISMA had already monopolized the export of war *matériel* to Nationalist Spain (ADAP, D, III, doc.61, p.53, Letter, Du Moulin to German Foreign Ministry; ADAP, D, III, doc.80, pp.73ff., Report by E. Messerschmidt). In his "memoirs" Bernhardt argues that he was actively involved in the first shipping of copper to Germany and not, as Messerschmidt has tried to make out, opposed to it (H.- H. Abendroth, *Mittelsmann*, p.47 and footnote 37).

Schottky, who had arranged for the supplies, had apparently managed to convince Franco about the necessity of such deliveries.[103] Despite this earlier reluctance to take on economic tasks, Bernhardt had changed his tune completely by the time of his meeting with Göring, Warlimont and Thomas. Göring´s obvious interest in Spanish raw materials seemed to have convinced Bernhardt that he needed to alter his attitude to further his career. In addition to his earlier unspecified demands, Göring had made it known in early September that he expected some raw materials in return for the Luftwaffe supplies valued at RM 15 million, received by Franco before late August. His list of demands included copper, zinc, tin, iron ores and nickel, with a particular emphasis on cement copper and pyrites.[104] At the aforementioned meeting, Bernhardt was therefore very keen to accept extended responsibilities for HISMA as suggested by Warlimont. As a result of the meeting, Göring decided to elevate HISMA to the official position of `representative of Germany´s economic interests in Nationalist Spain.´[105]

It was determined that HISMA would continue to act as a payment office for the German troops in Spain, but that it would otherwise be independent from the German military command there.[106] Göring´s decision was a reflection of

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[103]Schottky had been involved in the Spanish-Weimar German naval cooperation of the twenties and early thirties. His role at the beginning of the civil war is less clear. He was probably linked to *Sonderstab W* although there is no concrete evidence about his task. According to Whealey he apparently acted as transport officer at Salamanca in early 1937 (R. Whealey, Hitler and Spain, p.209, note128, based on a memo by Schottky for the OKM, 3/3/1937; A. Viñas, *Guerra, Dinero, Dictadura*, p.73). From 1 February 1938 he was officially employed by ROWAK as adviser on the `delivery, charging and carrying out of war material supplies to Nationalist Spain´ (BA R121/2077, Letter, ROWAK to Dr. Hoppe (RWM), 14/4/1939, author´s translation, C.L.).

[104]BA/MA RL2 IV/1 D1, Report about *Unternehmen Feuerzauber*, by General Schweickhard, 8/3/1940.

[105]BA R121/005300, Short undated report about organizational structure of HISMA/ROWAK; H.- H. Abendroth, *Hitler in der spanischen Arena*, p.124.

[106]At the beginning of September HISMA had also taken over the financing of the German news service in Nationalist Spain (BA R121/842, , unsigned, undated report *Entwicklung*).

the level of his control over Germany´s interventionist operations in Spain.[107] Moreover, it was also proof for the further increase of his authority within the Germany economy. As Richard Overy has noted `throughout 1936 and 1937, in alliance with more radical elements in the party, Göring wrested responsibility for economic affairs from Schacht and the Ministry of Economics.´[108] September 1936 had seen Hitler´s announcement of a `new Four-Year-Programme´ for the economy. Although it took until 18 October before Hitler issued the organisational and administrative decree to officialize the announcement, Göring had already taken the initiative between announcement and decree and had appointed several *Sonderbeauftragte* for various sections of the raw material and foreign currency sectors.[109]

HISMA´s economic activities in Nationalist Spain came to be one growing facet of Göring´s control over economic planning in Germany. Owing to the planned expansion of HISMA, Göring needed to appoint more personnel to deal with the economic tasks ahead. He received welcome assistance from Rudolf Hess who ordered members of the AO to assist HISMA. To entice qualified Germans to help to look after Germany´s economic interests, experts on Spain were offered RM 2,000 to 3,000 if they moved to Nationalist Spain. Moreover, Hess suggested AO *Gauamtsleiter* Eberhard von Jagwitz as a possible choice for the position of Göring´s authorized representative for economic matters concerning Spain. Göring immediately agreed to the suggestion, and von Jagwitz was transferred from *Wirtschaftsstab Keppler* to

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[107]See W. Schieder, *Spanischer Bürgerkrieg*, p.336. Although no definite evidence exists, Whealey is convinced that Hitler delegated the Spanish operation to Göring (R. Whealey, Hitler and Spain, p.77, and "Foreign Intervention", p.217).

[108]R. Overy, "Heavy Industry and the State in Nazi Germany: The *Reichswerke* Crisis", in European History Quarterly, Vol.15, p.315.

[109]A. Kube, *Pour le merité und Hakenkreuz, Hermann Göring im Dritten Reich*, Munich:1987, pp.157ff.
Göring´s title "Plenipotentiary for the Four-Year-Plan" gradually caught on at the end of 1936/beginning of 1937.

directly under Göring´s command.[110] Thus, Göring had the necessary personnel (members of the AO) and the organizational structure (HISMA) at his disposal to deal with economic matters in Nationalist Spain. Even more importantly, the arrival of von Jagwitz heralded the foundation of an organization which would deal with the German end of the economic relationship. It was this organization, ROWAK, which was to round off Göring´s control over Germany´s economic relations with Nationalist Spain.

It is not surprising that the main National Socialist accounts of Germany´s intervention in the civil war emphasize the foundation of the Rohstoff-Waren-Kompensation Handelsgesellschaft AG, or ROWAK, on Göring´s orders on 2 October 1936.[111] Clearly, this was a crucial step towards the attempted economic exploitation of Spain as well as another nail in the coffin of regular economic relations between Germany and Nationalist Spain. With the help of ROWAK, the Nazi state asserted its complete control over the economic relationship in Germany while HISMA was already dealing with its Spanish end. Moreover, by granting ROWAK power of attorney to HISMA on 29 October 1936, the German government established an official link between the two companies. Several reasons were given by contemporary official and semi-official accounts for the need to introduce a counterpart organisation to HISMA in Germany. For one, since Bernhardt´s `conversion´ in September HISMA had quite obviously been too zealous in its attempt to export Spanish raw materials to Germany. These had not been ordered by any specific German company, though such supplies could be useful to several. It was absolutely essential to

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[110]BA R7/738, unsigned memorandum, *Entstehung*, 15/3/1940; ADAP, D, III, doc.99, p.94, Note by Karl Ritter (AA), 15/10/1936; BA/Pots 25.01/7082, Copy of memorandum on a meeting on Spain, 20/11/1936; FCO AA3176, 682859f., Memorandum on appointment of von Jagwitz, 15/10/1936.
At the beginning of May 1937 Göring enhanced von Jagwitz´s position by appointing him director of the new *Geschäftsgruppe für Außenhandelsgeschäfte* in the Four-Year-Plan Office (BA R26I/3, Letter, Göring to von Jagwitz, 5/5/1937).
[111]See for example BA/MA RL2 IV/1 D1, the main military account of Germany´s intervention; BA R121/842 and BA R7/738, HISMA/ROWAK´s own accounts of their history up to 1940.

provide for a central organisation in Germany which could deal with the distribution of such raw materials. In the words of an unknown biographer of HISMA/ROWAK `no counterpart existed in Germany to receive HISMA´s raw material deliveries.´[112] Another insider to the organisation underlined this line of argument:

> In the meantime, the ships which HISMA had loaded with raw materials and sent on their way to Germany, had arrived there. Yet, no organization existed which was responsible for the running, utilization and reckoning up of the raw materials trade.[113]

Additionally, with the foundation of a central, state-controlled organisation, the Nazis could attempt to reap financial benefits from the import of Spanish raw materials, something which was certainly in their interest in view of the mounting cost of their support for Franco. A clearly defined and structured economic framework became necessary to ensure future economic benefits.[114]

Apart from the economic reasons, obvious political motives contributed to the new arrangement. It has previously been pointed out that, with the help of the AO, Göring ensured control over the German end of the economic relationship between the two states. Private industrial interests and conflicting concerns of other government ministries were usually ignored or even suppressed in favour of the desired HISMA/ROWAK monopoly. The following months until summer 1937 provided the stage for a conflict between these interests. With Hitler´s approval, Göring emerged victorious and HISMA/ROWAK´s position remained untouched until the end of the civil war.

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[112]BA R121/842, unsigned, undated report *Entwicklung* [author´s translation, C.L.]; *ibid.*, Power of attorney, 29/10/1936.
[113]BA R7/738, unsigned memorandum *Entstehung*,15/3/1940 [author´s translation, C.L.].
[114]BA/MA RL2 IV/1 D1, Report about *Unternehmen Feuerzauber*, by General Schweickhard, 8/3/1940.

During the foundation procedure of ROWAK, two managing directors, Friedrich Bethke and Anton Wahle, were listed in the official register.[115] As in the case of Eberhard von Jagwitz, who had lived in Argentina, ROWAK benefited from the experience of two further AO members with a background of work in Latin America. At the time of his appointment in October 1936 Bethke was working for a drug company in Chile and was in Berlin on vacation.[116] In 1938 von Jagwitz was appointed a special ministerial director for foreign trade in the RWM[117] and, as a *Sonderreferent,* Bethke soon followed him into Department V.[118] Yet, both retained the real decision-making power over ROWAK and helped to expand its activities into other countries, such as Iran in November 1938, Afghanistan in late 1937 as well as China and Bulgaria. As managing director, Bethke continued to supervise the day-to-day running of ROWAK, while von Jagwitz remained chairman of ROWAK´s advisory committee.[119] In fact, Bethke became one of the most influential figures within ROWAK - if not the most important one - and would remain so until the end of World War II. After the war Bethke would provide the Allies with useful information about the organization and its involvement in Germany´s economic relationship with Franco Spain. In the end, he was involved in the eventual liquidation of ROWAK in the late 1940s and early 1950s.

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[115]ROWAK was entered into the Berlin register of companies on 14 October. Its partnership agreement had been concluded on the tenth (BA R121/837, Record in the Berlin county court register, 14/10/1936).

[116]HISMA/ROWAK itself emphasized the experience gathered in Latin America by a number of its officials (BA R121/842, , unsigned, undated report *Entwicklung*).

[117]R. Whealey, Hitler and Spain, p.80.

[118]By May 1944 Bethke held two departmental directorships in the RWM *Hauptabteilung III*, those of *Sonderreferat B* (Special foreign tasks) and *Abteilung 3 (Länder I) Referat 4* (Spain, Portugal, Central and South America) (BA R7/37, Dates of birth of directors in RWM *Hauptabt III*, 1/5/1944).

[119]BA R2/22, Memorandum by Berger (RFM), 8/10/1938; BA R2/23, Letter, von Jagwitz to Dr. Müller (RFM), 22/12/1938; BA R2/27, Audit of ROWAK by *Deutsche Revisions- und Treuhand AG*, 31/12/1937; BA R7/738, Unsigned memorandum *Entstehung*, 15/3/1940; BA R121/819, Documents on the 6th meeting of ROWAK´s advisory committee, Oct. 1940 (?); BA R121/832, Meeting of ROWAK´s advisory committee, 4/11/1943.

Yet, back in the autumn of 1936 Bethke and von Jagwitz were still concerned with building up ROWAK. Only just founded, the new organization was soon faced with a growing number of responsibilities. According to HISMA/ROWAK reports, the lack of coal particularly threatened to interrupt the production of Nationalist factories and power stations.[120] Other supplies such as pharmaceutical goods appeared to have reached dangerously low levels. Thus, HISMA was approached by Nationalist companies, most prominently gas and electricity producers, but also by Franco himself to alleviate these problems.[121] Obviously, HISMA was not able to help on its own and approached ROWAK about these problems. As one of its first tasks the latter became involved in supplying the Nationalist economy with urgently needed goods. If this, in conjunction with the organization and distribution of incoming Spanish raw materials, constituted two seemingly separate tasks, they were, in fact, incorporated into a much wider area of responsibility.

> Since Nationalist Spain was not officially recognized by Germany [at the time of the foundation of ROWAK], it was impossible to establish a regular clearing agreement, and impossible to set an official fixed exchange rate. ROWAK was therefore founded to arrange for financing of trade with Nationalist Spain and to assume exchange fluctuation and credit risks for German producers of goods to be exported to that country, in short, to accomplish officially what could not be done officially.[122]

Göring put HISMA/ROWAK in charge of the organization of the entire trading relationship, including the organization of a special clearing system, between Germany and the Nationalist territory. This major task included the procuring of maximum amounts of Spanish raw materials, i.e. on a much bigger scale than the original small and irregular raw material transports organised by HISMA. By spring 1937 this particular undertaking would be extended to

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[120]The major Spanish coal fields were situated in Asturias and were at the time still under Republican control.

[121]BA R7/738, unsigned memorandum *Entstehung*,15/3/1940; BA R121/842, , unsigned, undated report *Entwicklung*.

[122]BA R121/1237, Statement by Bethke to the Allies, 18/8/1945.

include the purchase of mining rights in Spain.[123] Through HISMA/ROWAK Nazi Germany clearly intended to strive for a massive exploitation of Franco´s dependence on German military and economic aid.

ROWAK´s foundation and Göring´s instructions on HISMA/ROWAK´s role brought up some important questions. How would ROWAK fit into in the whole organizational network which was already dealing with the intervention in Spain? Moreover, where, within the German state, would the organization be placed? As ROWAK was to deal with aspects of the economic relationship between Germany and Nationalist Spain, it was theoretically under the jurisdiction of the RWM. Legally, ROWAK was subordinated to Special Section South of Export Department V of the RWM.[124] Yet, before Hjalmar Schacht´s resignation as Economics Minister in November 1937 and the subsequent complete nazification of the Ministry, the RWM had only limited influence in the affairs of ROWAK. In fact, it appears that the RWM was not immediately informed of the foundation of ROWAK. In the second week of October 1936 the Ministry was about to send Ludwig, a director of the Reichsbank, to Burgos and Seville, to negotiate the general regulation of trade between Germany and Franco Spain, when it was suddenly notified about the recent foundation of ROWAK. In fact, the same document which informs us about the Ministry´s ignorance, also reveals its powerlessness in the face of such an infringement of its activities. Following the revelation, RWM officials comforted themselves with the assumption that HISMA/ROWAK would only deal with the trade in raw materials and that the HISMA/ROWAK system would only be a temporary arrangement.[125] Both assumptions, however, were proved wrong and the RWM had to content itself with being a purely administrative umbrella for ROWAK´s activities. Under Göring´s powerful protection, ROWAK was allowed to act

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[123]See next chapter.
[124]R. Whealey, Hitler and Spain, p.78.
[125]ADAP, D, III, doc.101, pp.96f, Memorandum by Sabath, 16/10/1936.

independently and was able to withstand any attempt to limit its activities. Finally, on 9 November 1936 the RWM itself enforced ROWAK´s near-monopolistic position by publishing an administrative order which prohibited private sales or purchases in any part of Spain by any other organisation.[126] Significantly, in late 1936 Göring not only decided to exclude the RWM and private companies from any further direct involvement in trading arrangements with Spain, but he also apparently determined at the same time that the War and Foreign Ministries would `avoid further involvement in the Spanish project.´[127]

The Reich Finance Ministry (RFM), on the other hand, was ordered to supply the necessary funds for the foundation of ROWAK by granting a starting and bridging loan of RM 4 million.[128] By pointing out that Göring applied to Alfred Olscher, ministerial director in the Finance Ministry, for this credit, Robert Whealey attempts to prove that ROWAK became a financial subsidiary of Vereinigte Industrie Unternehmung AG (VIAG). Whealey bases his argument for such a connection on the fact that Olscher held a seat on the board of VIAG. Although there is some evidence that the Reich Finance Ministry attempted to ensure control over ROWAK,[129] no proof can be found to support Whealey´s conclusion. The fact that Olscher simultaneously held posts in the Finance Ministry and in VIAG (and, as Whealey has pointed out, in the Reichskreditgesellschaft) cannot be regarded as sufficient evidence in itself.[130]

Initially, therefore, no single ministry managed to assume complete control over ROWAK, though the organization was officially incorporated into the RWM.

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[126]R. Whealey, Hitler and Spain, p.79.
[127]R. Whealey, Hitler and Spain, p.77.
[128]BA R121/1237, Memorandum by Bethke, 8/2/1937.
[129]BA R121/1237, Unsigned report (probably by von Jagwitz), 26/11/1936.
[130]R. Whealey, Hitler and Spain, p.79.

Once Schacht had resigned from the ministry, Göring finally permitted the RWM to take proper control of ROWAK. In fact, Göring´s two major confidantes in ROWAK, von Jagwitz and Bethke, were promoted into the RWM in 1938 to ensure a continuation of the way ROWAK had been run since its foundation. Nonetheless, the composition of ROWAK´s advisory committee in June 1940 demonstrates that different ministries and organizations continued to be officially involved with ROWAK. Alongside the RWM, the Reich Finance Ministry, AO as well as Reichswerke Hermann Göring and the Deutsche Revisions- und Treuhand-AG were all represented on the committee.[131] It has been pointed out that the AO supplied most of HISMA/ROWAK´s personnel allowing it to have some say in the running of the latter. The Reich Finance Ministry had supplied the necessary initial funds and continued to look after financial matters. The Four-Year-Plan Office was represented through Reichswerke Hermann Göring, and the Deutsche Revisions- und Treuhand-AG had been appointed as HISMA/ROWAK´s official auditor. Indeed, HISMA/ROWAK´s pivotal role in the economic relationship with Franco Spain was reflected by the involvement of these ministries and organizations.

By late 1936, the day-to-day running of Germany´s economic relationship with Nationalist Spain had been arranged in such a way that nearly all exports from Germany to Spain, and vice-versa, had to pass through `the HISMA/ROWAK system´ which was to play the crucial role concerning the compensation arrangements within the trading relationship between Nationalist Spain and Nazi Germany. As far as Spanish imports of German goods were concerned, companies were permitted to negotiate directly with each other. The conclusion of any business deal, however, had to go via HISMA/ROWAK and the following steps had to be undertaken. The Spanish company had to

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[131]BA R121/819, Documents on the 6th meeting of ROWAK´s advisory committee, Oct. 1940 (?).

arrange for an import permit from the Nationalist authorities. Furthermore, it had to pass on an import request form to HISMA with the value of the order calculated in Reichsmark. The company would then have to pay the CIF value of the order in Pesetas into HISMA accounts at either the Banco Alemán Transatlántico, the Banco Español de Crédito or the Banco Hispano-Americano. For its involvement in the deal HISMA would finally charge the Spanish importer a commission on the value of the order. After having received the Spanish order form, ROWAK would prepare a certificate of availability of financing for the German producer. The respective German company would then complete the production of the export items as well as organize delivery CIF port of destination. Only then did ROWAK pay the German exporter from `ROWAK-HISMA Account II´ at the Reichskreditgesellschaft A.G. in Berlin. For taking on `the risks of financing and compensation of orders´ ROWAK would generally charge the German exporter a commission on the CIF value. Commission rates depended on the type of export and could change `according to the kind and extent of the order.´

Spanish exports to Germany were processed in a similar manner, yet a more limited amount of goods were permitted for import. If a German company wanted to import from Spain, it had to approach ROWAK to ascertain whether the requested goods were allowed for clearing through the account of HISMA/ROWAK. If this was the case, the company could then get into touch with a Spanish exporter `to make preliminary enquiries regarding the business.´ Even if the transaction was accepted by ROWAK, the relevant German control board would still have to check whether agreed prices were acceptable. If all sides involved had finally agreed to the business deal, the Spanish exporter would hand over to HISMA a *pro forma* bill in Reichsmark of the FOB (free on board) value of the goods. HISMA would then send the documents to ROWAK which would at once send confirmation to the German importer. The German

importer then attached this written confirmation to the application for an import and foreign exchange permit submitted by him to the competent control board. In Germany, ROWAK would make sure that the German importer paid up in Reichsmarks into an *Aski*-account before giving HISMA the go ahead for the transaction. Back in Spain, the Spanish exporter would have to produce an export permit from the Nationalist authorities, the relevant shipping documents and the final bill. Finally, he would receive his payment in Pesetas from HISMA, minus a commission for HISMA´s services. Shipping documents were transferred to the German importer via ROWAK´s bank and ROWAK would also charge a commission, in this instance to the German importer.[132] Thus, trade contacts between German and Spanish companies were fitted into a strict organizational network. In the matter of German war *matériel* deliveries to Spain a slightly different system applied. Contacts between the *Oberkommando der Wehrmacht* (OKW) and ROWAK were run via General Wilberg´s *Sonderstab W.*[133] Nationalist orders of war *matériel* would have to be sent from *Sonderstab W* - or if they had been received by HISMA, from there - to ROWAK. Generally, ROWAK then proceeded in one of two ways. It either passed the order on to the AGK, the latter being responsible for allocating the order to the relevant arms producers, or it arranged for deliveries from Wehrmacht stocks via *Sonderstab W.* In the latter case the commission charged by ROWAK for handling the financing of these supplies was lower than for the financing of deliveries from industry.[134]

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[132]BA R2/27, Interim audit of ROWAK by the *Deutsche Revisions- und Treuhand AG*, May to September 1937; BA R121/1237, Statement by Bethke to the Allies, 18/8/1945; PRO FO371/20558/18515, Foreign Office translation of an official announcement in the *Berliner Börsenzeitung* (17 December 1936) by British Embassy (Berlin), 18/12/1936; BA/Pots 25.01/7082, Copy of a memorandum on a meeting in RWM, 26/10/1936; A. Viñas, *Política Comercial Exterior*, pp.148f.

[133]BA R121/1237, Unsigned report (probably by von Jagwitz), 26/11/1936.

[134]BA/MA RM20/1483, OKM *Allg. "Otto" 4/10/1937 - 21/8/1939;* BA R121/860, Letter, Bethke to Bernhardt, 23/7/1937.

Table 2: COMMISSIONS CHARGED BY HISMA/ROWAK ON 31/12/1937

German Exports to Spain	Commission (in %)
War *matériel* (AGK supplies)	5
War *matériel* (*Sonderstab W* supplies)	1.5 for ROWAK, 0.5 for HISMA (to September 1937) 1 for ROWAK, 1 for HISMA (from September 1937)
Clearing of goods sold to personnel of Condor Legion	0.25 (0.175)
Cement	2
Coal	2 (to 14/10/1937) 1 (from 15/10/1937)
Other	5 (to 14/3/1937) 3 (from 15/3/1937)

German Imports from Spain	Commission (in %)
Resin and Turpentine	3 (to May 1937) 2 (from May to Oct. 1937) 1 (from October 1937)
Riff - iron ore	2 for ROWAK 2.5 d (sic?) for HISMA[135]
Navarette - iron ore	1.5 for ROWAK 2.5 d (sic?) for HISMA
Bilbao - iron ore	1
Pyrites	2 for ROWAK, 1 for HISMA (to March/April 1937) 1.5 for ROWAK, 1 for HISMA (from April 1937) 1 for ROWAK, 1 for HISMA (from 15/10/1937)
All ore supplies based on contracts from 1938	1
Skins (not furs)	2 (to April 1937) 1 (from April 1937)
Furs	1 for ROWAK, 1 for *Sonderkonto Piel Export* (from November 1937)
Other	2 (to about 1/7/1937) 1.5 (from July to Oct. 1937) 1 (from October 1937)
Money transactions	0.5 (at least RM 1)

Source: BA R2/27 [author's translation, C.L.]

[135]It seems likely that "2.5 d" stands for 2.5 pence per ton of iron ore exported to Germany.

In any case of transaction, HISMA/ROWAK was certain to receive a handsome financial reward for its involvement. Small wonder, therefore, that the organization was keen to defend its near-monopolistic position. Near-monopolistic because, curiously enough, it allowed one private *entrepreneur* to enjoy his own little share of the trade between Germany and Nationalist Spain.

It was in the context of possible pre-civil war contacts of individual Germans with some of the future rebels that attention was drawn to Josef Veltjens.[136] In fact, Veltjens re-emerged during the civil war as a supplier of war *matériel* to General Mola. Desperately short of supplies, Mola had approached National Socialist officials in August 1936. Unsuccessful in his first attempt, Mola quickly followed it up with a second request to which he received a more favourable response. *Sonderstab W* ordered Veltjens to supply Mola with 8,000 rifles and 8 million rounds of ammunition. Of these, Veltjens bought 3,500 rifles and 3.5 million rounds directly from German producers while the remainder was supplied by the *Heereswaffenamt* and paid for by Veltjens. Apparently, Veltjens also dispatched 6 Heinkel 51 fighters to Mola which arrived at La Coruña on 14 August. To pay for the war *matériel* which he then sold to Mola, Veltjens made an initial payment of £90,000. The remaining debt, however, he settled with Spanish copper ore. This remittance in raw materials arrived in Germany on the very ship, the *Girgenti*, which had transported 257 tons of war *matériel* and 1510 tons of coal to Mola´s troops at the end of August.[137]

As sole owner of J. Veltjens, Waffen und Munition[138] Veltjens would remain the only German private individual involved in the sale and supply of arms to

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[136]See page 18.
[137]ADAP, D, III, doc.33, pp.30f., Report, Seydel to Canaris; ADAP, D, III, doc.41, p.36, Letter, Seydel to Canaris, 15/8/1936; BA/MA RL2 IV/1 D1, Report about *Unternehmen Feuerzauber*, by General Schweickhard, 8/3/1940; BA/MA RM20/1222; R. Whealey, Hitler and Spain, p.81; W. Schieder, *Spanischer Bürgerkrieg*, p.332; R. Proctor, Hitler´s Luftwaffe, p.34.
[138]AHN PG/DGA20/1935, Various bills from *J. Veltjens, Waffen und Munition*, 10/3/1939.

the Nationalists, though from late 1936 onwards in conjunction with his new partner, a Lithuanian by the name of Henry Aschpurvis.[139] In early 1937, their joint transport company, Hansegesellschaft Aschpurvis & Veltjens[140], expanded its role in the provision of arms to Nationalist Spain with the acquisition of Mathias Rohde & Jörgens, the Hamburg shipping company which had been employed in the first transports of war material to Franco.[141] It remains a mystery why Veltjens was invited to undertake his own gunrunning activities. Yet, after Veltjens had established himself alongside HISMA/ROWAK, his role had to be defined more clearly. In February 1937 von Jagwitz attempted to mark off Veltjens´ involvement in the supply operations from that of HISMA/ROWAK. In a memorandum he pointed out that war *matériel* deliveries of non-German origin would be procured via Veltjens and that these would have to be paid for with foreign currency. Any arms supplies of German origin would fall within HISMA/ROWAK´s area of responsibilities and payments would be settled by the organization.[142]

Yet, in practice, Veltjens´ activities often intertwined with those of HISMA/ROWAK. In fact, despite Jagwitz´ memorandum, he continued to supply Nationalist Spain with German arms specializing mainly in rifles and ammunition. These arms supplies he usually purchased from ROWAK though he was allowed to sell them to the Nationalists at his own prices.[143]

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[139]BA R121/860, AO to *Außenhandelsamt* of AO, 8/10/1938; PRO FO371/22642/4605, Letter, Sir Neville Henderson to FO, 6/4/1938; R. Whealey, Hitler and Spain, p.82.

[140]Whealey is mistaken in giving the name of Veltjens´ partner as Aschpuvis. All primary sources refer to Aschpurvis (see for example BA R121/1237, Letter, Veltjens to ROWAK, 15/6/1937)

[141]BA R121/1237, Letter, Veltjens to ROWAK, 15/6/1937; BA R121/860, AO to *Außenhandelsamt* of AO, 8/10/1938; see also p. 20.

[142]BA R121/1237, Memorandum by von Jagwitz, Berlin, 10/2/1937.

[143]BA R121/1237, Three letters, ROWAK to Veltjens, 28/4 and 31/5/1937, 10/3/1939; BA R2/19, Letter, ROWAK to *Sonderstab W*, 22/4/1937, Bill No. 16, 22/3/1937; BA R2/20, *Sonderstab W* bills Nos. 1 and 2, 9/8 and 24/8/1937.
Augusto Miranda, one of Franco´s arms buyers in London, reported to Canaris that, several times, he had purchased arms from "the well-known German arms dealer Veltgens" (*sic*!) (ADAP, D, III, doc.213, p.198, Memorandum by von Dörnberg, 26/1/1937).

Nonetheless, he remained a relatively small wheel in the whole aid machinery. By 30 September 1937 he had purchased RM 7.72 million of war *materiél* from ROWAK while the total expenditure on Germany´s intervention amounted to RM 246.92 million for the period 1 August 1936 to 30 September 1937. Although ROWAK received no commission on its deals with Veltjens, it was still a worthwhile operation as Veltjens had to pay for everything he ordered in foreign currency.[144] This, and the fact that his company was regularly employed by ROWAK as a transport organization, specialising in the transportation of explosives,[145] might explain why Veltjens´ activities were tolerated once he had commenced his supply operations.

While HISMA/ROWAK condoned Veltjens´ movements, the organization itself ran into serious opposition from some members of the German government. When, in November 1936, the Foreign Ministry furnished the first official German representative to the Franco regime, General Wilhelm Faupel, with the necessary information about the economic relationship between the two states, this opposition was clearly demonstrated. In the presence of Hermann Sabath, Karl Ritter informed Faupel that a new arrangement for the trade between the two states was desirable. He reiterated a common belief in the German Foreign Ministry that the HISMA/ROWAK system would only be used for a transitional period. Ritter argued that it would now be advisable to consider the introduction of a regular trading and clearing system. He recommended the commercial adviser at the German embassy in Spain, Enge, as a useful informant until further steps regarding personnel questions had

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[144]BA R2/20, Report *Aufwendungen für Spanien* by *Sonderstab W*, 6/10/1937; BA R2/27, Report by *Deutsche Revisions- und Treuhand AG* on an interim audit of ROWAK, May to September 1937.
[145]BA R2/27, Payment demands by Veltjens for deliveries undertaken for ROWAK, 25/11/1937; BA R121/1237, Several freight bills issued by Veltjens, 1937; AHN PG/DGA1/925, Bill, HISMA to *Dirección General de Adquisiciones*, 9/10/1937; AHN PG/DGA2/1001, Bill, *Hansegesellschaft Aschpurvis & Veltjens* to ROWAK, 3/12/1937; see also R. Whealey, Hitler and Spain, p.82.

been taken. Faupel apparently agreed with Ritter´s information and advice.[146] To the horror of Foreign Ministry officials, however, he would ultimately ally himself with HISMA/ROWAK against attempts to undermine its position.[147]

HISMA/ROWAK, and its supporters in the AO and particularly Göring, did not fail to notice how uncomfortable some senior government officials felt about the influential role of the organization. Yet, they were clearly not at all keen to give in to any opponents and a controversy was bound to develop. In December 1936, this development towards a dispute was accelerated because of the need to decide on the future of the German-Spanish trade agreement which had come into force on 9 March 1936 and was to run out on 31 December 1936.[148] The problem arose because the trade agreement had automatically been transferred to the economic relationship with Nationalist Spain after Germany had recognized the Franco regime as the legitimate government of Spain on 18 November.[149]

In fact, between July and November 1936, and despite Germany´s intervention in favour of Nationalist Spain, the Nazis had not officially prohibited trade deals with companies in Republican Spain. Although imports from Republican Spain were not stopped, the military-political situation made these increasingly unlikely. As far as German exports to the Republic were concerned, the German government ensured that German companies were informed about their undesirability.[150] Although German shipping companies

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[146]ADAP, D, III, doc.132, p.123, Memorandum by Sabath, 27/11/1936.
[147]See below page 64. See also Abendroth´s dismissal of Schieder´s conclusion that Faupel was keen on a payment and clearing agreement (H.- H. Abendroth, "Die deutsche Intervention", p.127; W. Schieder,*Spanischer Bürgerkrieg, passim).*
[148]ADAP, D, III, doc.163, p.153, Telegram, Karl Ritter (AA) to Faupel, Salamanca, 23/12/1936.
[149]ADAP, D, III, doc.123, pp.113f., Telegram, Hans Dieckhoff to all German diplomatic missions, 17/11/1936.
[150]FCO AA5646/H001866f., Memorandum by Sabath on meeting on 27 November 1936, 28/11/1936.

were finally banned from calling at Republican ports in February 1937,[151] no official prohibition on trade with companies in the Republic was announced even after Germany´s recognition of Franco´s regime. In fact, in June 1937, several German ministries, including the War Ministry, agreed to allow German companies to export goods to Republican Spain as long as these were not helpful to the Republican war effort, paid for in foreign currencies, and transported in non-German ships.[152] Moreover, a verbal warning by the Nationalist Foreign Ministry delivered to the German embassy in late November 1937 seems to indicate that Germany was still receiving deliveries of oranges from the Republic. In the warning note, Franco´s Foreign Minister, General Francisco Gómez Jordana y Souza, declared that from now on ships transporting oranges to Germany would be stopped.[153] Angel Viñas´ figures on imports and exports registered in Republican customs statistics indicate that some trade with the three main supporters of the Nationalists, Germany, Italy and Portugal, did continue at least into the first half of 1938, albeit on a dramatically reduced scale.

Table 3: REPUBLICAN SPAIN´S TRADE WITH GERMANY, ITALY AND PORTUGAL, 1936-38 (first semester only), in 000 Gold Pts

	Germany		Italy		Portugal	
	Import	Export	Import	Export	Import	Export
1936	50,811	52,169	1,019	4,416	975	5,660
1937	1,206	192	139	----	254	----
1938	21	----	129	----	124	----

Source: A.Viñas, *Politica comercial exterior I*, p.242, footnote 129.

[151]MAE R1053/4, German embassy to Nationalist Foreign Ministry, 17/2/1937.
[152]FCO AA3176/D683019f., Memorandum by Sabath on meeting in German Foreign Ministry on 15 June 1937, 17/6/1937.
[153]MAE R1034/14, Nationalist Foreign Ministry to German embassy, 23/11/1937.

Overall, economic contacts between Germany and Republican Spain can be dismissed as negligible and irregular. Nazi Germany had overwhelmingly shifted her economic interests to Nationalist Spain, even before the commencement of diplomatic relations with the new regime.

Once Nationalist Spain had been recognized, official steps towards a new trade agreement could be initiated by both sides. In late 1936, such negotiations posed some danger for HISMA/ROWAK as they might bring about a modification in status of the organization. At least, this change was hoped for by opponents of HISMA/ROWAK in Germany and Nationalist Spain. At first, the problem was shelved for a short period as the agreement was extended for three months to give both sides an opportunity to plan and then open negotiations.[154] However, the wrangle behind the scenes continued unabated. In early January 1937, a Foreign Ministry memorandum emphasized the need to return to a normal trading relationship between Franco Spain and Germany. The unknown author of the document argued that HISMA/ROWAK´s seemingly monopolistic position should be drastically curtailed, and that normal clearing institutions should be introduced.[155] This growing conflict of interests in Germany was fuelled by the desire of the Franco administration to conclude `an intergovernmental clearing and commodity agreement that would regularize trade.´ Influential members among the Nationalist leadership, such as Nicolás Franco, regarded the normalization of trade with Germany as an essential step towards free trade.[156] Besides, they argued that it would be more useful to Nationalist finances if Spanish raw materials could be sold for foreign currency, and not to pay off debts to Germany.[157] While debts could be settled after the war, foreign currency would be of immediate use. In early February 1937

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[154]ADAP, D, III, doc.180, p.170, Telegram, German embassy, Salamanca, to German Foreign Ministry, 1/1/1937.
[155]FCO AA3176/D682900f., Undated, unsigned memorandum, probably January 1937.
[156]R. Whealey, Hitler and Spain, p.81.
[157]H.- H.Abendroth, Hitler in der spanischen Arena, p.126.

Franco´s `Finance Ministry´, the *Comisíon de Hacienda*, therefore attempted to open an *Aski*-account in Germany which was intended to be used for compensation transactions. When this attempt met with a negative response in Germany, General Jordana was asked to intervene with the German authorities. On 20 February, he reiterated to the German embassy his government´s desire to normalize commercial relations with Germany, at least as far as the payment modus was concerned. He complained about commissions charged for business transactions and about the use of `intermediaries", though he did not mention HISMA/ROWAK by name. Finally, Jordana suggested a transitional commercial system on the basis of an *Aski*-account in which Spanish exporters could pay in the sums received for their exports and use the same funds for the payment of imports.[158]

The German government took this suggestion very seriously, and, consequently, a ministerial meeting was arranged for 26 February. As part of the preparations for this meeting, Felix Benzler of the Commercial Section of the Foreign Ministry compiled a very revealing memorandum. Not surprisingly, the main bone of contention was the conclusion of a new clearing agreement which would endanger the `present monopolistic position of Rowak/Hisma.´ At the moment, Benzler pointed out, HISMA/ROWAK enjoyed Göring´s total support. In fact, the organization also received some tentative backing from the Foreign Ministry, though with the reservation that any support would only last for the duration of the conflict in Spain. Schacht was unreservedly in favour of a new clearing agreement and, *ergo*, against the organization. According to Benzler, he was still supported by the Reich Finance Ministry and the Food Ministry, though the latter seemed to be about to adopt the position of the Foreign Ministry. Benzler concluded that the meeting was clearly intended to

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[158]MAE R1040/14, Letter, *Comisíon de Hacienda* to Nationalist Foreign Ministry, 19/2/1937, and Verbal note, Jordana to German Embassy, 20/2/1937; A.Viñas, *Politica comercial exterior*, p.166.

decide on this important matter and to resolve some of the aforementioned disagreements. No disagreement, however, existed about the need to convince Franco to agree to a new trade agreement which would give Germany better trading conditions.[159] This desired new trade agreement was supposed to strengthen Germany´s position in view of the fact that, after a successful conclusion of the civil war, the Nazis would no longer be able to rely on Franco´s dependence on Germany. Attempts by Italy and Britain to conclude trading agreements with the Franco administration in late 1936 had only underlined this fear.[160]

At the actual ministerial meeting Schacht surprisingly agreed not to press for a new trade and clearing agreement with Franco Spain.[161] There is no definite evidence to account for a motive why Schacht should have yielded. It can only be assumed that, in the face of growing support for Göring´s position amongst other ministers, Schacht acquiesced for the time being. In the end, the outcome of the meeting left HISMA/ROWAK in a consolidated position, yet conflict between supporters and opponents of HISMA/ROWAK persisted. The continued controversy was reflected in several ways. Bernhardt was undoubtedly convinced that HISMA´s opponents were intent on undermining the influence of the organization. In an attempt to find incriminating evidence they were apparently keeping a close eye on HISMA´s activities. In a letter to von Jagwitz in March 1937 he reported that the AGK and the RWM had ordered a `Herr von Walterhausen ... to monitor us about attempts to achieve a monopolistic position.´[162] Barely two weeks later he added a Nationalist official

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[159]ADAP, D, III, doc.223, pp.207ff., Memorandum by Felix Benzler (AA), 23/2/1937.
[160]Franco signed a treaty with Italy on 28 November 1936 part of which covered general economic matters. Both states accorded to each other preferred nation treatment. The German government feared that this would make Franco dependent on Italy, and would weaken Germany´s position (ADAP, D, III, doc.142, p.132, Telegramm, von Neurath to German embassy in Rome, 5/12/1936).
[161]ADAP, D, III, doc.231, p.214, Memorandum by Karl Ritter, 17/3/1937;
FCO AA2946H/D576095-100, Memorandum by von Jagwitz, 13/12/1937.
[162]BA R121/860, Letter, HISMA to von Jagwitz, 20/3/1937 [author´s translation, C.L.].

to his list of adversaries when he reported on the activities of Blas Huete Carrassó, President of the newly created *Comité de Moneda Extranjera* (CME). In his report Bernhardt portrayed Huete as an opponent of HISMA´s activities, though he did not present any details about the reasons behind this opposition.[163] It seems very likely that Huete was one of a number of influential officials in Franco´s administration who were in favour of a normalization of the trading relationship between the two states. As president of the CME he was concerned with the `normalization of the trade in foreign currencies in the liberated zone´, the publication of official exchange rates and the centralization of the liquidation of all foreign currency operations.[164] Bernhardt´s relationship to Huete´s CME had certainly not got off to a good start when he approached Franco in mid-January to enquire about the transfer of all foreign currency in the possession of the Nationalists to pay for Germany´s services.[165] Bernhardt´s unwelcome intervention coincided with the attempt of the CME to regularize the foreign currency situation of the Nationalists. The impudent demand by HISMA´s director was not only completely rejected by Huete, but also by Nicolás Franco. The enthusiasm HISMA had expressed for Nicolás Franco in the early stages of the civil war must have been dampened quite considerably in view of his increasing emnity towards the prevalent trading system. His brother, however, decided to bide his time.[166] General Franco knew only too well that he had to tread carefully. He was far too dependent on German support to risk antagonizing Bernhardt.

Bernhardt´s increasingly brash attitude - as demonstrated in his demand for foreign currency - did not go unnoticed in Berlin. Although Ritter agreed with

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[163]BA R121/860, Report by Bernhardt, Berlin, 31/3/1937. The operations of the *CME* started on 12/12/1936.
[164]A. Viñas, *Politica comercial exterior*, p.151 [author´s translation, C.L.].
[165]ADAP, D, III, doc. 213, p.198, Report by von Dörnberg (AA) about a conversation between Admiral Canaris and Augusto Miranda, 26/1/1937.
[166]ADAP, D, III, doc. 213, p.198, Report by von Dörnberg (AA) about a conversation between Admiral Canaris and Augusto Miranda, 26/1/1937.

Bernhardt on this particular matter[167], Bernhardt seemed to be overstepping his mark too often. Von Jagwitz had to warn him about his demeanour, particularly about his tendency to intervene and decide on matters without the necessary authorization. In his first personal letter to Bernhardt in March 1937, von Jagwitz first commended him on his work in Spain and then warned him not to become `our biggest headache.´[168] It is very likely that the letter was a direct result of the aforementioned ministerial meeting which had taken place less than a week before. Undoubtedly, Bernhardt´s activities were discussed during the meeting, and not all of these found general approval. Von Jagwitz was, for example, `taken to task´ by Göring about certain commission payments which HISMA/ROWAK had been charging on business transactions in which it was not actually involved.[169] In general, however, Bernhardt´s activities as director of HISMA were regarded as a success by his superiors. There is no evidence to suggest that his field of activity was restricted.

While Bernhardt´s occasional unauthorized interventions were treated with relative mildness by his superiors, opponents of HISMA/ROWAK were less fortunate. In a conversation with Ritter, von Jagwitz attacked Wilhelm Ullmann from the Deutsche Überseeische Bank. Ullmann had apparently approached the Franco government about the need to normalize trade relations with Germany. Von Jagwitz was convinced that it was this `unauthorized initiative´ which, in February, had led to the aforementioned Spanish verbal note about the conclusion of a new trade and clearing agreement. Von Jagwitz argued that Ullmann simply `was trying to get the Deutsche Überseeische Bank back into

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[167]ADAP, D, III, doc.213, p.199, Supplementary comment by Ritter, based on a conversation with Bernhardt, dated 28/1/1937.
[168]BA R121/860, Letter, von Jagwitz to Bernhardt, 1/3/1937.
[169]ADAP, D, III, doc.231, pp.213f., Memorandum by Ritter about a conversation with von Jagwitz, 17/3/1937.

the Spanish business.´[170] Although it seems highly unlikely that an individual German businessman could influence the Franco government on such an important matter, the issue serves to re-emphasize the mutual mistrust between supporters and opponents of HISMA/ROWAK. Clearly, many German businessmen were concerned about the increasing intervention of new organisations, such as HISMA/ROWAK, and National Socialist officials in the running and direction of Germany´s trade. The case of Germany´s economic relations with Franco Spain proved to be a significant example for this development.

Two memoranda representing both sides of the argument underlined the on-going conflict. Dr. Max Ilgner, member of the board of IG Farben, did not directly mention HISMA/ROWAK in his memorandum *Die Exportförderung im Rahmen des Vierjahresplanes*. Yet, paragraph 1e of the memorandum was implicitly directed against organizations such as ROWAK. In this paragraph Ilgner criticized *Sonderkonstruktionen* (special organizations) because they purported to lead to the loss of competitiveness of smaller companies.[171] Von Jagwitz, on the other hand, compiled the longest available defence of HISMA/ROWAK in his memorandum *Durchsetzung nationalsozialistischer Grundsätze in der Wirtschaft*. He emphasized that Spain provided an excellent example of the fact that it was possible to direct Germany´s foreign trade according to National Socialist principles. German industry had been `helpless´ in the face of the abnormal circumstances created by the Spanish Civil War. As it had clearly failed and as this failure would have created enormous damage to the German economy, it had been absolutely essential to create an organization which was able to react positively to new circumstances. At the same time, this new organization would be able to extract unforeseen amounts

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[170]ADAP, D, III, doc.231, pp.213f., Memorandum by Ritter about a conversation with von Jagwitz, 17/3/1937 [author´s translation, C.L.].
[171]BA R7/3411, Memorandum by Dr. Max Ilgner, 6/4/1937.

of important raw materials from Spain. Von Jagwitz declared that German industry had reacted irresponsibly to the situation by sending representatives to Nationalist Spain who were to compete for the purchase of Spanish goods as well as the sale of their own goods. No thought had been given to the problems this would cause. Von Jagwitz´ main argument against this kind of attitude was that unrestrained competition could only push up the prices of Spanish goods. Fortunately, however, HISMA/ROWAK managed to succeed over the `egoism of the free economy.´ Von Jagwitz concluded that German companies had by now recognized the need to subordinate themselves to the new trading system and he underlined his belief in HISMA/ROWAK by referring to the economic and financial success of the organization.

Table 4a: SELECTION OF SPANISH GOODS TRANSPORTED TO GERMANY BY HISMA/ROWAK, OCTOBER 1936 - 4 MAY 1937

Goods	Amount	Value (in RM)
Iron ore	621,445 t	5,120,000
Pyrites	419,360 t	3,790,000
Cement copper	3,003 t	1,273,000
Copper ore	660 t	12,000
Lead & Lead ore	2,629 t	606,000
Olive oil	4,207 t	3,589,000
Resin	8,000 t	1,656,000
Wool	1,560 t	1,780,000
Skins	n/a	2,400,000
Sardines in oil	104,781 cases	1,070,000
Almonds	1,000 t	1,650,000
Oranges	506,757 cases	3,007,000
Lemons	17,383 cases	141,000
TOTAL TRANSPORTS		**31,437,875**

Table 4b: SELECTION OF SPANISH GOODS GUARANTIED FOR FUTURE TRANSPORT TO GERMANY ON 4 MAY 1937

Goods	Amounts	Value (in RM)
Iron ore	800,000 t	6,400,000
Pyrites	660,000 t	6,600,000
Copper ore	2,400 t	48,000
Olive oil	2,000 t	2,000,000
Resin	5,700 t	1,300,000
Wool	2,500 t	3,500,000
Skins	n/a	2,000,000
Sardines in oil	15,000 cases	200,000
Almonds	500 t	800,000
Oranges	140,000 cases	700,000
Lemons	43,000 cases	180,000
Cork	5,700 t	1,650,000
TOTAL AGREED		**28,039,000**

Source: FCO/AA 3176/D682984-87, Report by ROWAK on its first 6.5 months, 4/5/1937 [author's translation, C.L.]

By the time von Jagwitz published his memorandum, in August 1937, his organisation had clearly won the battle against its opponents.[172] In May, Franco had finally decided to drop his demand for a clearing agreement. He thereby virtually accepted the existing HISMA/ROWAK system. The conclusion of a trade agreement which was desired by both sides still took place, but it did not harm HISMA/ROWAK's position.[173]

Franco's decision ended months of discussion between the two states. In January, Faupel had recommended sending a German delegation to start negotiations on the economic relationship between the two states as well as the matter of Spanish payments. Hitler concurred with the recommendation and a delegation was put together. However, it took until April before the negotiations

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[172]BA R121/860, Memorandum *Durchsetzung nationalsozialistischer Grundsätze in der Wirtschaft* by von Jagwitz, 26/8/1937; FCO AA2946H/D576095-100, Memorandum by von Jagwitz, 13/12/1937. See also H.- H. Abendroth, *Hitler in der spanischen Arena*, p.129.
[173]ADAP, D, III, doc.263, pp.248f., Telegram, Faupel to German Foreign Ministry, 21/5/1937.

started in Burgos.[174] The German delegation was led by an official of the Reich Finance Ministry, Privy Councillor Wucher,[175] and contained representatives from ROWAK and the other ministries involved. The Spanish delegation vainly pressed for a clearing agreement and for an end to the HISMA monopoly. The German delegation, on the other hand, urged for a continuation of the HISMA/ROWAK clearing system though Wucher showed some understanding for the Spanish attitude.[176] Nonetheless, he argued that Germany preferred to have only one `channel´ through which it could receive Spanish goods and raw materials. Similar to the attitude von Jagwitz would take three months later[177], the German delegation argued against the opening of direct trade links between individual companies. General Franco was implicitly warned that a rejection of the existing clearing system would have serious implications for the financing of German war *matériel* deliveries to Spain, namely that supplies would otherwise be threatened.[178] General Franco´s decision to abandon his demand for a clearing agreement can be interpreted as a direct reaction to this threat. The discussions over a new trade agreement continued and found their conclusion in July when several important protocols were signed. In the first protocol, signed on 12 July, both sides agreed to postpone a comprehensive economic agreement as long as the present conditions of war prevailed. Once the situation had changed, the Franco administration promised to conclude an economic agreement with Germany. If Franco Spain wished to commence economic negotiations with another state, it would have to inform Germany first. The German government would then be able to intervene if it felt that German economic interests were likely to be affected. However, Franco Spain at least

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[174]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.130.
[175]ADAP, D, III, doc.196, p.186, Telegram, Faupel to German Foreign Ministry, 12/1/1937; ADAP, D, III, doc.206, p.193, Telegram, Ritter to Faupel, 16/1/1937.
[176]FCO AA3176/682979-83, Report by Wucher on economic negotiations with Franco Spain, 21/4/1937.
[177]See p. 54.
[178]ADAP, D, III, doc.256, pp.244f., Telegram, Ritter to German embassy in Salamanca, 13/5/1937.

reserved itself the right to conclude a similar agreement with Italy.[179] Whereas the first protocol catered for the future, the second, signed three days later, was concerned with present economic matters. Both sides promised, if possible, to supply each other with raw materials, food and manufactured products. The protocol was kept very general, and did not go into specific arrangements for trade.[180] The last protocol was mainly concerned with the debt question. It was decided to postpone a decision on the payment method. Yet, it was agreed that 4 per cent interest was to be paid annually on the Reichsmark debt. This interest, however, could be re-negotiated as part of the eventual discussions on the payment method. Crucially, the Franco government agreed to supply Germany with raw materials as security and part payment on the debt. Furthermore, the Spaniards conceded to Germany the right to invest in economic interests in the Nationalist territory. Indeed, the regime would accept the formation of Spanish companies with German specialists and German capital to find and mine raw materials as long as these companies complied with Nationalist jurisdiction. Additionally, Germany promised to help Franco Spain in the reconstruction of the country and the stimulation of Spanish production.[181] All three protocols appeared to underline the strong position of the German government. Economically, Franco Spain appeared to be bound to Germany very closely. For the time being, Franco had to accept an extended German economic expansion in Spain. On the other hand, many parts of the protocols were kept sufficiently vague to give Franco some leeway. Firstly, the debt question was to be settled in later negotiations. Secondly, the supply of raw materials was left to Franco´s discretion, though he certainly remained under pressure to comply with German requests. Thirdly, Germany´s desire to build up a mining empire had to be in accordance with Nationalist law. As it

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[179]ADAP, D, III, doc.392, pp.347f., Protocol signed by Faupel, Wucher, Jordana, Bau, 12/7/1937.
[180]ADAP, D, III, doc.394, pp.350f., Protocol, 15/7/1937.
[181]ADAP, D, III, doc.397, pp.354f., Protocol, 16/7/1937.

turned out, laws could be changed to limit Germany´s economic expansion. Finally, after the victorious termination of the civil war and, consequently, the end to his military dependence on Germany, Franco might find himself in a better position to weaken Germany´s influence in Spain. It has to be seen whether Germany´s short-term success, which certainly left a sour taste in the mouth of many Nationalist officials, did not have detrimental consequences in the long term, that is, after the civil war.

Though certainly a very crucial issue, the conflict about its existence and the extent of its influence over the economic relationship between Germany and Franco Spain did not constitute the only matter HISMA/ROWAK had to deal with after the foundation of ROWAK in October 1936. Several further political and military developments had an impact on the organisation. In October 1936 Hitler took a crucial decision for the further development of the Spanish Civil War and increased Germany´s military presence by sending a substantial military force, the Condor Legion, to Spain. On 30 October Admiral Canaris informed Franco and Warlimont about the formation of the legion.[182] Hitler had been extremely disappointed about the slow progress of the Nationalist troops. The promised quick capture of Madrid seemed to become increasingly unlikely as its Republican defenders had been reinforced by the arrival of Russian supplies and foreign volunteers. However, Hitler was even more annoyed about what he regarded as Franco´s mistaken strategy.[183] In the end, Franco had to accept the establishment of the Legion in order to receive more German aid.[184]

The first transport of troops left Stettin on 7 November. By 18 November, 92 planes and more than 3800 troops as well as tanks, anti-aircraft guns and

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[182]R. Proctor, Hitler´s Luftwaffe, p.71.
[183]ADAP, D, III, doc.113, p.106ff., Order of the German War Minister, 30/10/1936.
[184]R. Whealey, Hitler and Spain, p.49.

signal equipment had already been transported to Spain.[185] General Hugo Sperrle was appointed first commander of the legion. Warlimont, on the other hand, was immediately released from his post in Spain and called back to Germany.[186] German troops already in Spain were integrated into the Condor Legion. Although the Legion was led by a German commander, it was subordinated to Franco´s military command.[187] Its maximum strength at any time during the civil war never exceeded more than around 5,600 men.[188]

With regard to HISMA`s relationship to the Legion, it is essential to emphasize the role of Wilhelm Faupel. On the day of Germany´s official recognition of the Franco government,[189] Hitler received Faupel and appointed him German *chargé d´affaires* in Franco Spain.[190] The appointment was preceded by a struggle between the AO and the Foreign Ministry about the filling of the post. The latter wanted one of its diplomats, Eberhard von Stohrer, to go to Nationalist Spain. He had been appointed ambassador to the Spanish Republic in July 1936, but did not take up his duties owing to the outbreak of the civil war.[191] However, the AO scored a sweet triumph over its rival and `AO-ambassador´ Faupel[192] left Germany as her first official representative to the Franco government.[193] According to Abendroth the AO had clearly come to regard Spain as its domain. After all, Bernhardt and Langenheim were AO members, they had been instrumental in Hitler´s decision to intervene in Spain,

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[185]R. Whealey, Hitler and Spain, p.50; R. Whealey, "Foreign Intervention", p.218.
[186]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.63.
[187]ADAP, D, III, doc. 113, pp.106f., Order of the German War Minister, 30/10/1936.
[188]R. Whealey, Hitler and Spain, p.101f.
[189]Hitler and Mussolini recognized Franco´s government on 18 November 1936 inspite of the fact that Franco had not yet captured Madrid, an initial pre-condition for the recognition (ADAP, D, III, p.99f., Note of the publishers referring to pp. 87-99 of Ciano´s papers *L´Europa verso la catastrofe*. See also ADAP, D, III, docs.109 and 110, pp.103f.; ADAP, D, III, doc.122, p.113, Telegram, von Neurath to German embassy in Portugal, 17/11/1936).
[190]ADAP, D, III, doc. 125, p.117, Memorandum by von Neurath, 18/11/1936.
[191]R. Whealey, Hitler and Spain, p.65; H.- H. Abendroth, *Hitler in der spanischen Arena*, p.103.
[192]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.103.
[193]Faupel arrived as German charge d´affaires. He became ambassador on 11 February 1937, ADAP, D, III, p.206, footnote 2.

and Bernhardt had become an important figure as director of HISMA.[194] Moreover, ROWAK was not only led by members of the AO, but the AO also provided the bulk of its personnel. After having established a firm role in the economic relationship between the two states, the AO was very keen to extend this influence to the diplomatic field. Although Faupel was not a member of the AO, his beliefs and his experience in Latin America were sufficient to convince the organisation of his usefulness.[195] Hitler decided in favour of the AO, and Faupel arrived in Salamanca on 28 November 1936 to take over Germany´s diplomatic representation in Franco Spain. The Foreign Ministry had to content itself with appointing two of their men, Schwendemann and Enge, as Faupel´s diplomatic and economic advisers. A further important advisory role was taken up by Warlimont who returned to Spain as Faupel´s military adviser.[196]

It is evident that the National Socialist leadership decided to allow only a limited role for the "traditional" diplomats of the German Foreign Ministry in their policy towards Spain. Instead, all aspects of Germany´s intervention in Spain were to be controlled by the party and one of its organisations, the AO. Although German embassy officials in Nationalist Spain were involved in the day-to-day running of Germany´s relationship with Nationalist Spain, the major decisions were usually taken by NSDAP officials. In this context, Hermann Göring´s role is of particular interest. In a recent essay Hans Mommsen attempted to demonstrate that Göring played a more influential role in the decision-making process of the Third Reich prior to 1940 than has been assumed hitherto.[197] Interestingly enough, however, Mommsen has omitted to use one case which

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[194]ADAP, D, III, p.206, footnote 2.
[195]For more information on Faupel, see H.- H. Abendroth, *Hitler in der spanischen Arena*, p.104.
[196]R. Proctor, Hitler´s Luftwaffe, p.72.
[197]H. Mommsen, "Reflections on the Position of Hitler and Göring in the Third Reich", in T. Childers & J. Caplan (eds.), Reevaluating the Third Reich, New York/London:1993, pp.86-97.

would have undoubtedly strengthened his argument: Göring´s role in Germany´s intervention in Spain. While Göring was not instrumental in the initial decision to intervene in Spain - a decision evidently taken by Hitler alone - he managed to acquire a dominant role thereafter. There is clear evidence that this is particularly true of the economic aspect of Germany´s intervention and the development of an economic relationship with Nationalist Spain.

An examination of the early development of the economic relationship between Nazi Germany and Nationalist Spain, and particularly of the expansion of HISMA/ROWAK, reveals that Göring was ultimately responsible for each major step taken. On Göring´s orders HISMA´s role was extended from simply organizing the airlift of Nationalist troops to Spain to a broader economic role. There is no evidence that Hitler was consulted when Göring then elevated HISMA to a central role in the economic relationship between the Nationalist territory and Germany. As part of this expansion Göring, with the help of Rudolf Hess, arranged the employment of AO members in HISMA, and soon after that in the newly-founded ROWAK. Moreover, whereas Göring had only partly been involved in the foundation of HISMA, ROWAK owed its existence solely his orders.

Yet, Göring was not satisfied with simply establishing the initial arrangements. Indeed, he continued to remain closely involved in the future development of HISMA/ROWAK. Not only did he put the organization in charge of the entire economic relationship and clearing system between Nazi Germany and the newly-recognized Nationalist Spain, he also made sure that German officials opposed to the new system would not interfere in it. Although HISMA/ROWAK was nominally under the control of the German Economic Ministry, ultimate authority rested with Göring. In the crucial ministerial meeting in early 1937, Göring ensured that neither Schacht nor other opponents of the

HISMA/ROWAK system were able to alter the present arrangement. Even Nationalist Spanish insistence on a normalization of the trading relationship could not change Göring´s mind. He had become convinced that HISMA/ROWAK would be advantageous to Germany´s needs, but also beneficial in his own quest for more and more power. No evidence could be found that Hitler, at any point, showed his disapproval of Göring´s decisions, or intervened actively in favour of opponents of the HISMA/ROWAK system in the first year of Germany´s intervention in Spain. Indeed, as the next chapter will demonstrate, Göring continued to be in control of the economic relationship with Nationalist Spain throughout the Spanish Civil War. Moreover, Göring was also actively involved in attempts at moulding Nationalist Spain into an economic colony of Germany.

CHAPTER II

ANGLO-GERMAN ECONOMIC RIVALRY IN NATIONALIST SPAIN AND THE MONTANA PROJECT

By the end of November 1936 all important institutions of Germany´s intervention in the Spanish Civil War had been established. HISMA/ROWAK catered for the economic aspect of the intervention as well as for the organization of the military aid for Franco, diplomatic and political aspects were looked after by the German embassy in Franco Spain and the Condor Legion provided for Germany´s active military involvement in the civil war.

Within this network of organizations and individuals, tensions soon developed. In July 1937 Bernhardt reported to von Jagwitz that `the hostility of the Legion against us is becoming more direct and obvious day by day.´[198] Throughout the first half of 1937 Sperrle, the Legion´s commander, had clearly shown his hostility towards both HISMA and Faupel. It is easy to understand why Sperrle did not think much of Faupel as the old general had been trying to intervene in military matters since his coming to Salamanca. Soon after his arrival Faupel had been told to keep out of military affairs. Yet, he even tried to convince Hitler to send a whole German division.[199] His suggestion was rejected. Nevertheless, he continued in his attempts to intervene in General Sperrle´s area of responsibility. There is no evidence to explain why Sperrle became hostile to HISMA, though it can be assumed that Faupel´s good relationship to Bernhardt was one of the reasons. According to Abendroth, Bernhardt developed into one of Faupel´s closest *confidantes*.[200] In a letter to

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[198]BA R121/860, Letter, Bernhardt to von Jagwitz, 16/7/1937 [author´s translation, C.L.].
[199]ADAP, D, III, doc. 144, pp.133f., Telegram, Faupel to German Foreign Ministry, Salamanca, 5/12/1936.
[200]H.- H. Abendroth, *Hitler in der spanischen Arena*, p.115. Abendroth gives no source for this information.

the Foreign Ministry Faupel reported about Sperrle and his hostile attitude towards HISMA, but he did not refer to the actual reasons for this hostility.[201]

Faupel´s meddling attitude as German *chargé d´affaires*, and future ambassador in Franco Spain, affected not just his fellow Germans, but he also managed to antagonize many Spanish officials with his constant attempts to intervene in the domestic affairs of Franco Spain.[202] In fact, Faupel´s behaviour was somewhat detrimental to the relationship between Germany and Nationalist Spain. This was at least some comfort to the British government which felt that the Nazi regime was surging ahead in binding Nationalist Spain closely to Germany. Britain, however, was finding it difficult to deal with the `new´ Spain, Franco´s regime, with which she did not maintain diplomatic relations. Certainly, the British government did not endear itself to the Nationalists by its refusal to grant Franco belligerent rights and to supply him with war *matériel*.

Despite the occasional arrogance of German officials such as Bernhardt, the German government did not suffer from such major problems. It is not surprising, therefore, that the British government became increasingly concerned about Germany´s intervention in Spain, particularly in the economic field. One outstanding case, the developments surrounding the Rio Tinto mining company, should help to highlight these concerns. In August 1936, the Nationalist military advance had led to the conquest of the British-owned Rio Tinto pyrites mines of Huelva. According to Charles Harvey `from the beginning Franco determined that the products of the Mines should be sold for the benefit

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[201]ADAP, D, III, doc.386, pp.340f., Letter, Faupel to German Foreign Ministry, Salamanca, 7/7/1937.
[202]For details about Faupel´s behaviour, see R. Whealey, Hitler and Spain, pp.64f. and H.- H. Abendroth, *Hitler in der spanischen Arena*, pp.113ff.

of the Nationalist administration and not the Rio Tinto Company.´[203] This could only lead to conflict with the British government which was anxious to protect British investment in Spain, particularly such an influential company as Rio Tinto. If the `very approximate´ figure of £40 million invested on the Spanish mainland by British companies is accepted, then Rio Tinto alone accounted for roughly 12.5 per cent of this total.[204] Indeed, the British government was not only worried about the danger to British investment in Spain, but also about the products British companies in Spain exported to Britain. Future imports of Rio Tinto´s main mining product, pyrites, caused some anxiety as it played an important role in Britain´s expanding armaments industry.

Pyrites can be composed of a number of valuable minerals including oxide of iron, copper, gold, silver and sulphur. Despite the other important possible contents, pyrites are mainly valued for their sulphur.[205] Iron pyrites are `commonly sold on a guarantee of 45-50 %´ of sulphur content. For the manufacture of sulphuric acid they are used more often than any other mineral, with the exception of sulphur itself.[206] Sulphuric acid accounts for 85 per cent of all uses of pyrites, and is an essential product for the chemical industry.[207] In the 1930s it was of particular importance for the production of munitions, fertilizers and synthetic materials. Indeed, for the production of the latter, the German chemical industry needed growing amounts of sulphuric acid in the 1930s.[208] In 1935, pyrites accounted for 80 per cent of all raw materials used for

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[203]C. Harvey, The Rio Tinto Company, an Economic History of a Leading International Mining Concern 1873-1954, Penzance:1981, p.270.

[204]PRO FO371/21299/15799, FO memorandum, 17/8/1936; J. Edwards, The British Government and the Spanish Civil War, p.65 (based on PRO FO371/20569/10320). Edwards emphasizes that the figures given by Lazards, the firm of City bankers appointed to compile them, were based on nominal stock values only and did not take fluctuations of the market value into account.

[205]Rutley´s Elements of Mineralogy, p.196.

[206]Rutley´s Elements of Mineralogy, p.196.

[207]C. Harvey, The Rio Tinto Company,p.273.

[208]PRO FO371/20569/10737, Letter, Fennely (BoT) to FO, 2/9/1936; R. Whealey, Hitler and Spain, p.75; W. Schieder, "Spanischer Bürgerkrieg", in W. Schieder & C. Dipper (eds.), *Der Spanische Bürgerkrieg*, p.177.

Germany´s total sulphuric acid production.[209] Moreover, of the estimated 1,574,000 tons of sulphuric acid produced in Germany in 1935 less than 30 per cent came from domestic raw materials. Spain was the most important single source of pyrites, accounting for between 50 and 55 per cent of all pyrites imports before the civil war.[210] In 1935 alone, 562,584 tons of Germany´s total pyrites imports of 1,018,000 tons had been supplied by mining companies in Spain.

Britain, on the other hand, imported less than half of Germany´s figure from Spain, 208,548 tons.[211] However, as a percentage of Britain´s total pyrites imports, her industry relied even more heavily on Spain as a source than Germany. In 1935, almost two-thirds of British iron pyrites arrived from Spain.[212] ICI, for example, `drew its entire supply of pyrites for the manufacture of sulphuric acid from Spain.´[213] Indeed, most of the British furnaces were adapted to the sulphur content of Spanish pyrites. Undoubtedly, considerable problems would arise should Britain have to switch some of its pyrites imports to other sources, such as from Norway or Cyprus.[214]

It was not only the sulphur content which made Spanish pyrites an important raw material. Pyrites were - and still are - valued for their copper content. By leaching cupreous pyrites, copper precipitate can be obtained whose recoverable copper content `varies according to its grade from between 60 per cent copper to 95 per cent copper.´[215] Copper has manifold uses in the

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[209]PRO FO371/21303/1122, Letter, Major Morton to Garran (FO), 15/1/1937.
[210]C. Harvey, The Rio Tinto Company,p.273; J. Edwards, The British Government and the Spanish Civil War, p.83.
[211]PRO FO371/22673/15896, Report Supply of pyrites from Spain, 30/11/1938; J. Edwards, The British Government and the Spanish Civil War, pp.82f.; W. Schieder, "Spanischer Bürgerkrieg und Vierjahresplan", p.178.
[212]PRO FO371/24144/9969, FO memorandum, 29/6/1939.
[213]J. Edwards, The British Government and the Spanish Civil War, p.84.
[214]PRO FO371/20569/10737, Letter, Fennely (BoT) to FO, 2/9/1936.
[215]PRO FO371/20570/11451, Letter, Sir Auckland Geddes (Rio Tinto) to FO, 11/9/1936.

electrical industry, in the construction of machinery, in the motor-car industry, and in chemical engineering. It is also extensively used in the manufacture of alloys.[216] In contrast, the iron content of iron pyrites is more problematic because the sulphur content can make extraction of iron a comparatively expensive business.

While Germany was the biggest recipient of Spanish pyrites,[217] British companies were the principal owners of pyrite mines in Spain, with nearly 90 per cent of all mines under their control.[218] This led to an obvious direct dependency of German pyrite importers on British-owned mines in Spain. In fact, nearly 80 per cent of all Spanish pyrites exported to Nazi Germany originated from the pyrite mines of Rio Tinto and the Tharsis Sulphur and Copper Company, a Glasgow-based mining company.[219] Before the civil war, annual production of the two companies had amounted to 1.4 million tons and 600,000 tons, respectively, by far exceeding their nearest rival, the Société Francaise des Pyrites de Huelva with 180,000 tons.[220]

Significantly, the outbreak of the civil war, and its effects on mining and transport, had a very rapid negative impact on Germany's reserves of pyrites.[221] With demands for pyrites increasing rapidly, a possible reduction of imports from Germany's most important source was viewed as a distinct possibility. It was hardly surprising, therefore, that, with the conquest of the Rio Tinto mines by Nationalist troops, Spanish pyrites became a focus of German attention. On

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[216] Rutley's Elements of Mineralogy, p.154.

[217] Two German companies, Duisburger Kupferhütte and IG Farben, were the biggest single consumers of Spanish pyrites with roughly 80 per cent of all German imports (PRO FO371/20570/11451, Letter, Sir Auckland Geddes to FO, 11/9/1936).

[218] R. Whealey, Hitler and Spain, p.75.

[219] C. Harvey, The Rio Tinto Company,p.276.

[220] A. Viñas, *La Alemania Nazi* (1st ed.), p.220.

[221] BA R121/860, Memorandum by von Jagwitz, *Durchsetzung nationalsozialistischer Grundsätze in der Wirtschaft*, 1/11/1936.

8 September 1936, a meeting took place in Berlin to discuss the resumption of pyrite exports from Spain for Germany´s chemical industry.[222] It appeared that the Nazis were increasingly tempted to obtain pyrites as payment for their aid to the Nationalists. Initial steps taken by the Nationalist underlined this danger for the British-owned mines. Apparently, requisitioning of ore started only a day after the conquest of the mines and, on 28 August, two Nationalist decrees officially announced that requisitioning should take place `to an extent sufficient for military needs.´ On the following day the military then ordered the requisitioning of all copper bars and precipitate stored at the mines.[223] By 2 November 1936, the Nationalist had apparently requisitioned copper at a value of Pts 3,700,504, and precipitate and pyrites at a value of Pts 3,568,708. Moreover, Germany had indeed benefited from the requisitioning. At the time, Captain Charles from Rio Tinto claimed that most of the requisitioned precipitate and pyrites were sent to Germany.[224] The available German evidence seems to bear his claim out. Since Veltjens´ ship, the *Girgenti*,[225] had loaded the first shipment of copper ore at Huelva, the principal port for the pyrite mining area of the Spanish southwest, several other ships had returned to Germany with similar cargoes. After a further voyage, the *Girgenti* returned to Hamburg on 20 September with a cargo of 2,156 tons of cement copper precipitate destined for the Norddeutsche Affinerie.[226] The *Girgenti* was followed by the Spanish steamer *Fermia* with 4,414 tons of Rio Tinto low grade fines for the IG Farben plant at Döberitz, as well as 1,983 tons of Rio Tinto cuperous fines for the IG Farben plant at Piesteritz, and 88 tons of precipitate for

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[222]According to Viñas Göring´s brother was apparently present at this meeting (A. Viñas, *Política Comercial Exterior*, p.147, no source for information given).
[223]BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940; PRO FO371/20570/11451, Letter, Sir Auckland Geddes to FO, 11/9/1936; A. Viñas, *Política Comercial Exterior*, p.145.
[224]PRO FO371/20571/17631, Letter, Captain Charles to FO, 7/12/1936.
[225]See Chapter I, p. 44.
[226]The copper content of the precipitate was roughly 1265 tons, valued at £46,395 (PRO FO371/21303/1109, Letter, Rio Tinto to Sir George Mounsey, 15/1/1937; A. Viñas, *Política Comercial Exterior*, p.147).

the Norddeutsche Affinerie in Hamburg.[227] During October a further 10,993 tons of Rio Tinto crude fines were received by Duisburger Kupferhütte and Nobel Dynamit.[228] In view of this diversion of pyrites to Germany, it is understandable that Rio Tinto `began to seek official support in November 1936.´[229]

Yet, towards the end of 1936, and during 1937, Rio Tinto´s protest constituted only one, albeit important, of an ever-increasing number of complaints from British businessmen in Spain, Nationalist and Republican. Yet, despite some misgivings about the way British companies were treated, the British government had no intention of getting drawn into the civil war. Indeed, it welcomed the non-intervention scheme proposed by the French government at the beginning of August 1936 and had actively taken part in the arrangements and meetings designed to implement it. Despite the commitment to non-intervention, it was impossible ultimately for the British government to ignore Germany´s increasing economic penetration of Franco Spain. The requisitioning of pyrites continued, indeed on a much larger scale than in September 1936. At the beginning of October 1936, representatives of the German State Supervisory Office for the chemical industry visited Nationalist Spain `to make detailed arrangements for large deliveries of pyrites to Germany through HISMA-ROWAK.´[230] This visit was the beginning of a more organized arrangement for the purchase and distribution of Spanish raw materials. In Germany, ROWAK brought together a `professional consortium of reliable import companies´ to receive and distribute imported raw materials. Towards the end of October some members of this consortium, including a top representative of IG Farben, were sent to Spain to assist HISMA in the

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[227]PRO FO371/21303/1109, Letter, Rio Tinto to Sir George Mounsey, 15/1/1937; BA R121/842, unsigned, undated report *Entwicklung*.
[228]PRO FO371/20588/17610, Letter, Consul-General Filliter (Hamburg) to FO, 27/11/1936.
[229]C. Harvey, The Rio Tinto Company,p.278.
[230]*Ibid.*, p.274.

purchase of raw materials.[231] Their visit coincided with the first large-scale requisitioning of pyrites for Germany. On 23 October 200,000 long tons were requisitioned for Germany from Rio Tinto, Tharsis and the Societè Francaise des Pyrites de Huelva, in exchange for supplies of nitrogen and other chemical products. Just over two months later another 170,000 long tons followed.[232] HISMA enjoyed very advantageous conditions in these deals. Although prices were worked out in pound sterling at 14 to 16 Shillings per ton, the Nationalists charged HISMA in Pesetas, with a special fixed exchange rate of Pts 3.33 to the RM attached to the transaction. This favourable deal meant that HISMA did not have to find valuable foreign currencies to pay for the pyrite supplies.[233]

By the time of the second major pyrite requisitioning order, in January 1937, Spanish iron ore had become another contentious issue for the British government. It seemed impossible to ignore Germany´s blatant economic expansion in Spain. The British government was forced to examine the dangers involved, particularly in view of the importance of Spanish iron ore and pyrites for British rearmament. At the same time, it was keen to discover more about Germany´s economic policy in Spain. As far as pyrites were concerned, the government received conflicting information on the state of Britain´s supply situation and the extent of Germany´s economic penetration. Rio Tinto provided the bleakest picture about the extent of Germany´s economic intervention. In a

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[231] BA R7/738, unsigned report *Entstehung*, 15/3/1940; A. Viñas, *Política Comercial Exterior*, p.150.
Apparently, an IG Farben delegation of four heads of departments had already approached the Nationalist authorities in Burgos at the beginning of October, most likely to negotiate the sale of nitrogen products to Franco (PRO FO371/20558/13252, Letter, Robbins (Rio Tinto) to Sir G. Mounsey, 7/10/1936).
[232] BA R121/858, Report on history of Minerales de España; C. Harvey, "Politics and Pyrites",p.93.
Duisburger Kupferhütte apparently supplied 10,000t of nitrogen in exchange for the 200,000t of pyrites (ADAP, D, III, doc. 608, pp.586f., Memorandum by Kreutzwald (AA), 13/6/1938).
[233] AHN PG/DGA187, Undated requisitioning orders by the Nationalist authorities; A. Viñas, *Política Comercial Exterior*, p.150.

letter to Sir George Mounsey, a senior Foreign Office official, at the beginning of January 1937, the company pointed out that:

there is apparently a great desire upon the part of the German officials and industrial concerns to place upon a legitimate basis the past, present and future transactions in Spanish pyrites hitherto requisitioned by the Military Authorities in Spain and delivered to Germany.

The letter referred to the abnormally high volume of Spanish pyrites delivered to Germany, on top of deliveries from other sources, and it was therefore deduced `that Germany is endeavouring to create a large stock of pyrites.´[234]

There is no doubt that Rio Tinto tried to stir up the British authorities to support the company´s cause against the Franco government and the German authorities. According to Jill Edwards, Sir Auckland Geddes, Chairman of Rio Tinto, had `made it his mission to involve the British government in a stand against Nationalist intervention´ from September 1936 onwards.[235] Initially, however, the Foreign Office detected a certain element of panic and exaggeration in Rio Tinto´s accounts. It believed that there was `no reason to jump to the conclusion that Germany is laying in a stock of pyrites.´ Germany was simply `taking steps to consolidate and establish her economic position in Spain on a sounder foundation.´ As yet there seemed to be no need for the British government to worry too much. Indeed, the Board of Trade had apparently reassured the Foreign Office about the state of the British pyrites supply position.[236] The War Office, however, did not necessarily agree with this conclusion. According to one comment, it was `not at all satisfied about this country´s position as are the Board of Trade´.[237] Apparently, there was some

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[234]PRO FO371/21303/1109, Letter, Rio Tinto to Sir G. Mounsey, 15/1/1937.
[235]J. Edwards, The British Government and the Spanish Civil War, p.84.
[236]PRO FO371/21303/1109, Comment by Garran to letter from Rio Tinto, 18/1/1937.
[237]PRO FO371/21303/1109, Comment by LAG(?) to letter from Rio Tinto, 19/1/1937.

dispute amongst government ministries about the possible danger for Britain´s rearmament.

The position was enlarged by the question of Spanish iron ore. Britain observed Germany´s iron ore imports closely. In January 1937 Major Morton, of the Industrial Intelligence Centre, described Germany as `essentially a hand-to -mouth-trader´ which apparently suffered from difficulties with her biggest supplier, Sweden. Morton went on to argue that Germany´s problems were caused by British buyers. The latter paid in cash, which the Swedes preferred to the compensation deals proposed by Germany. On Nationalist Spain, however, Morton concluded that it offered `a market in which conditions of payment are particular favourable to Germany´, that is, Germany did not have to pay in foreign currency.[238] Despite a certain complacency in the initial reaction of the Foreign Office to Rio Tinto´s pleas, the problem of Spanish pyrites and iron ore came increasingly to be a focus of attention for the British government.

HISMA´s economic policy in Spain at the end of 1936 and the beginning of 1937 eventually confirmed the need for the British government to examine the situation more closely. In October 1936 HISMA concluded two major deals which were intended to ensure Germany large amounts of Spanish Moroccan iron ore. Both Britain and Germany had been cut off from this source of iron ore after the outbreak of the civil war in July. But, whereas Britain continued to face difficulties in obtaining iron ore from Spanish Morocco[239], HISMA arranged for

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[238]PRO FO371/21303/1122, Major D. Morton (Industrial Intelligence Centre) to Garran, 15/1/1937. A ROWAK report from October 1936 had already predicted the problems with British buyers in Sweden. However, Germany´s import of iron ore from Sweden at that time was still in line with German planning figures, i.e. roughly 700,000 metric tons of 50-60 per cent of ore content (BA R121/860, Report on Germany´s iron ore supplies, 1/11/1936; J. Edwards, The British Government and the Spanish Civil War, p.91.

[239]PRO FO371/21299/15799, FO memorandum on British relations with General Franco, 17/8/1937. Iron ore exports from the Rif to Britain resumed to a limited degree in March 1937.

the first transport of Moroccan iron ore to Germany at the end of September.[240] Indeed, the organization then took the opportunity of arranging major deals with Franco. On 27 October HISMA concluded its first Riff contract which promised to provide Germany with a total of 900,000 tons of iron ore of the Minas del Rif in 1937.[241] Reading a report by the British Industrial Intelligence Centre it is easy to understand why Germany was so keen to conclude a contract with this particular mining company. According to Major Morton´s report the Compania Española de Minas del Rif mined `some of the richest ore in the world, with a content of 66 % metal free from sulphur and ready for shipping.´ The report pointed out that it was `specially appreciated by the German metallurgical industry for the manufacture of fine steel for machine guns, and for such articles as sewing machines, typewriters, and bicycle parts.´[242] Indeed, Germany´s interest in Riff iron ore went back to before the First World War. Then, the German company Mannesmann had held mining concessions there which were later renounced in the Treaty of Versailles.[243]

Shortly after the Riff business deal a contract with the Melilla-based Setolazar mines ensured Germany another 200,000 tons of iron ore for 1937. Morton´s conclusion on special financial motives for Germany´s interest in the Spanish raw material market was underlined by the nature of these agreements.[244] HISMA built up the Riff contract into `the birth of the compensation system´ with Nationalist Spain. The fulfilment of both contracts

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[240]BA R121/842, unsigned, undated report *Entwicklung*; Viñas, *Política comercial exterior*, p.147. The steamer *Procida* left the port at the Minas del Rif on 26 September with 2788 metric tons of iron ore on board.
[241]BA R121/858, Report on the history of Minerales de España. According to Whealey the contract was over 840,000 metric tons (R. Whealey, Hitler and Spain, p.86, based on *Jefatura Nacional de Adquisiciones*, Madrid, bundle 214, file 2).
[242]PRO FO371/21263/1550, Summary on iron ore in Spanish Morocco, by Industrial Intelligence Centre, 7/10/1936.
[243]*Ibid.* On the Mannesmann concessions see also M. Einhorn, *Die ökonomischen Hintergründe*, p.9.
[244]PRO FO371/21303/1122, Major D. Morton (Industrial Intelligence Centre) to Garran, 15/1/1937.

was to be accounted for as part payment on Germany´s military aid.[245] Yet, as German expenditure on supplies for Nationalist Spain had already reached RM 45,005,788 by early November 1936[246] these contracts amounted to nothing more than drops in the ocean of Nationalist debts.

Germany´s expenditure on the civil war was rising rapidly. The deployment of the Condor Legion had added another financial burden to Germany´s intervention in Spain. It was obvious to both Germany and the Nationalists that the latter faced extreme difficulties in recompensing Germany.[247] Indeed, the first transports of requistioned raw materials to Germany provided an acknowledgement of Franco´s payment difficulties. With the two iron ore contracts, both sides concurred to establish such compensation deals on a regular basis. Britain became increasingly worried about the extent of Germany´s iron ore deals in Spanish Morocco. HISMA´s aforementioned two major contracts for 1937 would ensure Germany already far more Spanish Moroccan iron ore than in the last pre-civil war year. In 1935 Germany imported about 1.3 million tons of iron ore from Spain and Spanish Morocco.[248] Imports from Spanish Morocco accounted for two thirds of this total.[249] Not only was HISMA plainly intent on securing maximum amounts of iron ore from Spanish Morocco, it was also keen to eliminate any possible competitors. On an official level HISMA arranged for short term and long term contracts which were to secure Germany future iron ore supplies, as well as present stocks in the

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[245]In many cases Bernhardt paid for Spanish raw materials with notes which were then sent to the *Sonderstab W* account section in Berlin `for cancellation against shipments of arms and additional goods and services´ (R. Whealey, Hitler and Spain, p.76, based on German Foreign Ministry document 4366/E082304-08 in the National Archives, Washington, D.C.)
[246]BA/MA RM20/1222, War Ministry statistic on expenditure on goods and services for *Winterübung Hansa* and "special deliveries", 1/3/1937.
[247]See for example BA R121/1237, Bethke´s comment in a meeting of *Sonderstab W*, 28/4/1937.
[248]BA/MA Wi/IB 2.3, Overview of economic situation in Spain, November 1940.
[249]PRO FO371/21263/1550, Summary on iron ore in Spanish Morocco, by Industrial Intelligence Centre, 7/10/1936.

territory controlled by the Nationalists.[250] Unofficially, the organisation put pressure on individual companies to supply them with their iron ore production and stocks. In one case, Wilhelm Pasch, one of HISMA´s leading representatives, tried to force the commercial agents of the European and North African Mines to sell Moroccan iron ore to HISMA. Pasch threatened the company with confiscation if it did not agree to the proposed deal. The matter was apparently settled without confiscation.[251] Although this mining company accounted for only 6 per cent of the whole iron ore production in Spanish Morocco, it was the only British iron ore mining company there and as such of concern to the British Foreign Office.

From late 1936 onwards the British government showed increased interest in Germany´s infiltration of Spanish Morocco. Admittedly, the government was always more concerned about the strategic implications of this infiltration than the economic ones.[252] After all, if Germany established a military foothold there, it could provide a potential threat to Gibraltar and British shipping in the Atlantic and Mediterranean in the event of war. Yet, the economic aspects of this infiltration were not underestimated, either.

Generally, the British government was increasingly worried about the pattern of Germany´s economic policy in Spain. HISMA´s behaviour in Spanish Morocco was not only seen in the light of a possible economic hegemony over this area, but also over Nationalist Spain as a whole. The British government was particularly concerned about the economic consequences of a possible Nationalist conquest of the Basque province. If Nazi Germany had been able to gain such an influence over iron ore

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[250]PRO FO371/21303/1122, Letter, Major Morton to Garran, 15/1/1937.
[251]PRO FO371/21303/1414, Letter, European and North African Mines Ltd. to Foreign Office, 19/1/1937.
[252]J. Edwards, The British Government and the Spanish Civil War,p.92.

production in Spanish Morocco, how much more damaging might be a German seizure of the more significant iron ore production of northern Spain? A report by the British Iron and Steel Federation, of February 1937, warned the government about the difficulties arising from the developments in Spain. According to the Federation defence requirements in the steel sector were already being seriously affected.[253] Rio Tinto found it tempting to use the growing worries over iron ore to frighten the Foreign Office into action. In January 1937, it reported to the Foreign Office that Germany would receive all stocks of iron ore in Bilbao and other areas `as and when taken by Franco.´ It based this dramatic piece of information on `an important Nazi industrialist with whose firm Rio Tinto has business relations.´ No name was given making the claim somewhat dubious.[254]

Undoubtedly, by spring 1937 the question of Spain´s iron ore production had become a more urgent issue for the Foreign Office than pyrites. In 1935 mainland Spain produced about 2,815,150 tons of iron ore and exported 1,893,370 tons. Of this latter amount, Britain had taken just over 57 per cent and she continued to be the main customer, despite a sharp drop from a market share of nearly 70 per cent in 1934. At the same time, however, Germany had increased its share of the Spanish iron ore market quite considerably.[255] Northern Spain accounted for nearly 80 per cent of Spain´s iron ore production.[256] Significantly, more than 75 per cent of all British iron ore imports from this area originated from a British mining company, the Orconera Iron Ore Company.[257] German

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[253]PRO FO371/21305/4076, Letter, British Iron and Steel Federation to Sir Robert Vansittart, 25/2/1937.
[254]PRO FO371/20713/246, Foreign Office Minute about a conversation with the commercial manager of Rio Tinto, 9/1/1937. This example underlines Harvey´s conclusion that Rio Tinto `acted in the capacity of an unofficial and unsolicited intelligence agency.´ (C. Harvey, The Rio Tinto Company, p.278). See also A. Viñas, *Política Comercial Exterior*, p.171.
[255]BA R7/736, Copy of an Economic Ministry statistic on Spain´s iron ore production and exports; PRO FO371/21303/1122, Report by Industrial Intelligence, 13/1/1937.
[256]BA/MA Wi/IB 2.3, Overview of economic situation in Spain, November 1940.
[257]PRO FO371/21317/22223, Report, Mr. Fraser (Board of Trade) to Mr. Howard, 13/12/1937.

penetration of Spain´s iron ore production would therefore not only hurt British imports in general, but it would also affect a further important British company in Spain.

At the beginning of 1937, however, the Republic continued to export iron ore to Britain. British government officials were therefore still more concerned about Germany´s economic activities in Spanish Morocco and southern Spain. Although HISMA admitted to initial problems with the transport of Riff iron ore, it had already taken away nearly 100,000 tons by December 1936.[258] Two months later deliveries of iron ore from Minas del Rif to Germany had reached an average of about 140,000 tons a month which accounted for roughly 78 per cent of total iron ore imports from companies in Spanish Morocco.[259] Indeed, for the whole of 1937, Germany was able to import 802,344 tons of iron ore from Spanish Morocco, compared to 183,736 tons imported by Britain.[260] Yet, the British government had to admit that there was nothing it could do about contracts between Spanish mining companies and HISMA.[261]

Nonetheless, some action had to be taken. The pyrite companies continued to make representations about the requisitioning of their products and the financial damage done to British investment in Spain. Angered by the slow reaction to its complaints Rio Tinto decided to take the matter into its own hands. In January, company officials approached HISMA/ROWAK directly and arranged for a series of meetings with German officials. Rio Tinto then asked the British government for assistance `during the forthcoming negotiations with the German official organisations.´ The first discussions between ROWAK

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[258]BA R121/858, Report on the history of Minerales de España.
[259]PRO FO371/21305/4060, Letter, Mr. T. Robbins (Commercial Manager of Rio Tinto) to Sir G. Mounsey, information provided by General Manager of Minas del Rif, 4/2/1937; J. Edwards, The British Government and the Spanish Civil War,p.91.
[260]In 1937 Holland imported 245,291 metric tons from Spanish Morocco, much of which was apparently reexported to Germany (R. Whealey, Hitler and Spain, p.86).
[261]PRO FO371/21264/7041, Report from Board of Trade, 12/4/1937.

officials, led by Bethke, Rio Tinto representatives and German officials from the mining sector took place in Berlin on 11 and 12 January, and negotiations continued thereafter. The whole atmosphere of the meeting appeared to have been very friendly. Bethke even promised to be of assistance in inducing Franco to refrain from sequestrating Rio Tinto´s sterling proceeds from its exports. However, he firmly defended HISMA/ROWAK´s actions. Despite repeated requests by Rio Tinto, Bethke did not agree to the return of the copper precipitate which had been requisitioned and sent to Germany in September 1936. The negotiations clearly underlined the fact that ROWAK was in a far stronger position than Rio Tinto. Bethke remained open to suggestions, but he would not allow any definite commitments.[262] HISMA/ROWAK was not at all keen to abandon its advantageous position. Despite attempts by the British government to intervene on behalf of Rio Tinto, the German government remained supportive of HISMA/ROWAK.[263] Affecting innocence, Nationalist Spanish officials argued that the requisitioned amounts had been delivered to a Spanish company (HISMA) which had then sold these to a private German company (ROWAK). The German government pointed out that it could therefore see no reason to intervene in such `private´ business deals.[264]

HISMA continued to exert pressure on the Nationalist authorities to requisition pyrites for Germany. In early February Bernhardt reported to von Jagwitz that he had a letter from Franco in his possession in which Franco offered Germany 60 per cent of the total production of Rio Tinto. Bernhardt

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[262]PRO FO371/21303/1109, Letter, Rio Tinto to Sir G. Mounsey, 15/1/1937.
[263]A representative of the commercial department of the British embassy in Berlin approached the German Foreign Ministry on two occasions in February. He demanded compensation for the requisitioned copper precipitate, but his request was rejected (ADAP, D, III, doc.218, pp.203f., Memorandum by Rüter (AA), 4/2/1937; ADAP, D, III, doc.245, pp.231f., Memorandum by Sabath, 16/4/1937).
[264]FCO AA3176/D682945-47, Memorandum by Benzler, 24/2/1937.
When Bethke visited London at the beginning of February 1937 to negotiate on pyrite supplies from the Rio Tinto area, the German Foreign Ministry emphasized that he was acting as a private businessman (FCO AA2938/D569701, Telegram, Sabath to German embassy (London), 31/1/1937).

emphasized that this letter, dated November 1936, should now be used.[265] Clearly, the Nazis would not let up. In May, HISMA demanded the requisitioning of 600,000 tons of Rio Tinto pyrites together with the necessary export licences.[266] One month later, German demands had apparently increased again. According to Captain Charles

> HISMA had put forward a formal application to the Burgos Authorities for 800,000 tons pyrites, to be supplied to them for Germany from now to the end of this year. HISMA´s application is said to be strongly supported by the de facto government in Salamanca.[267]

In fact, a requisitioning order for those 800,000 long tons of pyrites was eventually issued by the Nationalist authorities to Rio Tinto (320,000 tons), Tharsis (320,000 tons) and Societè Francaise des Pyrites de Huelva (160,000 tons). It was emphasized that, to fulfil the order, at least 100,000 tons monthly had to be supplied to HISMA until the end of 1937.[268] Captain Charles´ report and the requisitioning order underlined the main flaw in Rio Tinto´s negotiating position. Even if it managed to convince ROWAK to sign any kind of agreement, ROWAK would still be able to ignore it owing to Franco´s dependence on German aid. In fact, in July an agreement was apparently reached between Rio Tinto and ROWAK about the supply of pyrites. According to the agreement, Rio Tinto would cease to deliver pyrites to Germany if it did not receive its full sterling requirements from Franco. However, one Board of Trade official had to admit that he could see no value in this agreement as it would not stop Germany from receiving pyrites if she wished to do so.[269] As long as Franco

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[265]BA R121/860, Letter, Bernhardt to von Jagwitz, 5/2/1937. Franco´s promise was also mentioned by Faupel in a telegram to the German Foreign Ministry (ADAP, D, III, doc.208, p.194, 20/1/1937).
The original letter was sent by Nicolas Franco to Bernhardt on 26 November 1937. In the document, the Nationalists offered HISMA 40 to 60 per cent of Rio Tinto´s production `or its value in foreign currencies, to balance the compensation bill of the material supplied´ by HISMA to the Nationalists, and to amortize the Nationalist debt (AHN PG/DGA187, Letter, *Secretario General del Jefe del Estado* to Bernhardt, 26/11/1936).
[266]AHN PG/DGA187, Letter, Paege (HISMA) to N. Franco, 21/5/1937.
[267]PRO FO371/21310/11244, Report from Rio Tinto, 9/6/1937.
[268]AHN PG/DGA187, Undated requisitioning order by Nationalist authorities.
[269]PRO FO371/21312/13640, Letter, Mr. Fraser (Board of Trade) to Mr. Howard, 13/7/1937.

continued requisitioning pyrites, Germany would be able to fulfil her requirements. If the British government wanted to help British companies in Nationalist Spain, it would have to improve its relationship with Franco. Yet, any improvement depended not only on British moves, but also on Franco´s approval.

Which view did Franco himself hold on a possible *rapprochement* with Britain? Despite Franco´s close ties with Germany and Italy and his loathing of liberal democratic systems such as the British, he was nonetheless prepared to negotiate with Britain. As early as October 1936 the regime tried to re-establish commercial relations with Britain, though, owing to its lack of foreign currency, the Nationalist administration could only suggest an economic relationship based on compensation deals.[270] `Informal negotiations´ on the matter started on 14 November and lasted for three weeks. As a result of the discussions both sides agreed that goods imported to Britain from Nationalist Spain would be paid in pounds sterling. A majority of this revenue should then be used to buy British goods, particularly coal.[271]

By far, Britain had been the biggest supplier of coal to Spain before the civil war, accounting for nearly 97 per cent of all Spanish coal imports in 1935.[272] While the Spanish Republic had granted preferential import duties to British coal exporters, Britain was now worried that she might lose ground to German suppliers in the completely new legal position created in the Nationalist territory. Available figures seem to bear out that British fears were well-founded. Germany had supplied virtually no coal to Spain in 1934. In 1937, however,

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[270]A. Viñas, *Política comercial exterior*, p.150.
[271]*Ibid.*, p.155; J. Edwards,The British Government and the Spanish Civil War, p.78; E. Moradiellos, *Neutralidad Benévola, El Gobierno Británico y la Insurreción Militar Española de 1936*, Oviedo:1990, pp.348ff.
[272]Percentage based on figures given by J. Edwards,The British Government and the Spanish Civil War,p.77.

Germany managed to export Pts 33,265 million worth of coal to Franco Spain.[273] The available figures indicate that the *modus vivendi* reached with the Franco administration in December had, at best, only been a partial success for Britain. In an assessment of the behaviour of Nationalist officials, Jill Edwards argues that the concessions gained `were treated in cavalier fashion by the Nationalists authorities.´ Moreover, a considerable proportion of the money gained from Nationalist exports to England was used apparently to purchase goods in, amongst other countries, Germany. British coal exports to the whole of Spain had fallen considerably in 1936 and, despite continued supplies to the Republic, remained low in 1937. German coal producers, on the other hand, enjoyed a dramatically increased demand for their product in 1937. Not only did they benefit from the special relationship between Nationalist Spain and Nazi Germany, but they were able to undercut their British competitors.[274] Yet, 1937 would remain their peak year. Renewed interest in British coal and a much improved Nationalist coal output led to a rapid decrease in German coal exports to Spain, thereafter.

Table 6: BRITISH AND GERMAN COAL EXPORTS TO SPAIN (in metric tons)

Year	From Britain	From Germany
1935	979,738	12,400
1936	743,309	149,530
1937	769,616	a. 733,000
1938	1,019,960	a. 90,000
1939	41,152	?

Sources: FCO/AA 4366/E82359f., BA R7/3374, J.Edwards, The British Government and the Spanish Civil War, pp.77f.

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[273]BA R7/3279, Statistic by the *Statistisches Reichsamt*, Department II, on Spain´s import of important goods from the German Reich; BA R121/841, Audit by the *Deutsche Revisions- und Treuhand AG*, 31/12/1938.
[274]PRO FO371/21384/13140, Letter, H. Chilton to FO, 5/7/1937.

In early 1937 the Foreign Office was considering other measures to put pressure on Franco. In his negotiations with German officials in early February, Robbins, a Rio Tinto representative, had already indicated that the British government was examining the possibility of confiscating ships carrying unpaid cargoes of pyrites.[275] By the beginning of March 1937 the apparent economic exploitation of British companies in Nationalist Spain by the fascist powers[276] convinced Anthony Eden of the usefulness of such a response. In a cabinet meeting he suggested that `the United Kingdom had the power to end the state of affairs without too much trouble by making use of warships to intercept any ships carrying such products to Germany or Italy.´ Sir Samuel Hoare, the pro-Franco First Lord of the Admiralty, was horrified. He convinced the meeting not to consider such a step as it would be contrary to international law to stop ships of other nationalities. Such an infringement, Hoare argued, could then be regarded as a *casus belli*, and the League of Nations might hold Britain as the aggressor. Eden was forced to reconsider his initial decision, though he recommended at least strong representations to Franco.[277] However, no such representations had been made by the time of the next cabinet meeting. Instead, the government decided to wait for the result of on-going preliminary negotiations between representatives of the Board of Trade and the Franco government in Burgos.[278] By mid-March Eden had moved away from his earlier, more aggressive stance. As far as the negotiations problem of the requisitioning of Rio Tinto output were concerned, he regarded them `on the whole, not ... unsatisfactory.´[279] To strengthen the British negotiating position, he then suggested sending Sir Robert Hodgson as the government´s official

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[275]FCO AA3176/D682912-15, Report on talks with Rio Tinto representative in Berlin, 3/2/1937.

[276]According to Rio Tinto the Nationalists had requistioned 443 tons of pyrites, 204 tons of copper bars and 1,044 tons of precipitate for Italy in late September and at the beginning of October 1936 (PRO FO371/21303/1109, Report, Rio Tinto to Sir G. Mounsey, 15/1/1937).

[277]PRO CAB23/87, Cabinet meeting of 3/3/1937; J.Edwards, The British Government and the Spanish Civil War, pp.88f.

[278]PRO CAB23/87, Cabinet meeting of 10/3/1937.

[279]PRO CAB23/87, Cabinet meeting of 17/3/1937.

`agent´ to the Franco government. Eden reasoned that Hodgson would be in charge of representing British interests in the Nationalist territory without, he believed, the British government having to recognize the Franco regime as the official government of Spain. In the Foreign Office memorandum which Eden had used as the basis for his proposal, Frank Roberts of the League of Nations and Western Department had concluded that:

> The absence of any direct contact with General Franco makes it impossible for His Majesty´s Government to bring to bear on him and his advisers any counsels of moderation or to counterbalance in some measure the preponderating influence of Germany and Italy.[280]

Eden´s suggestion was immediately accepted by his colleagues in the cabinet. A circular telegram to the Dominions explained the decision to send an agent to Nationalist Spain.

> The increasing activities of General Franco´s naval forces, ... , as well as the measures of control which his administration is imposing on British owned mines and other property, make it more and more necessary for His Majesty´s Government to maintain with his administration a more direct and continuous form of contact, which is more particularly required for the proper regulation of British trade relations with Spanish commercial interests in General Franco´s territory.[281]

Despite general agreement in principle about the need to dispatch Hodgson to Spain, it took another seven months before a final decision was taken. In the meantime Franco had commenced his offensive against the Republican North. Due to the economic importance of northern Spain, Franco´s eventual success in this campaign made it absolutely essential for Britain to arrange for an exchange of representatives. Bilbao had fallen in June 1937 and the conquest of Gijón in October concluded a crucial victory for the Nationalists. Economically, victory in the north `brought with it 36 per cent of total national production, including 60 per cent of Spain´s coal production and 40 per cent of

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[280]PRO FO371/20558/6021, Foreign Office memorandum, 16/3/1937.
[281]PRO FO371/21288/5779, Circular telegram from the Dominions Office to Dominions, 22/3/1937.

steel.´[282] On 16 November, and with Franco in control of nearly two thirds of the country, Hodgson was finally sent to Nationalist Spain. Six days later Franco appointed his own agent to Britain, the Duke of Alba.[283]

It is easy to understand why Franco´s success in the North forced the British government to carry out what had really been decided months before. It has already been pointed out that Germany´s economic penetration of Spanish Morocco had set British alarm bells ringing in view of a possible repeat of the development in the north of Spain. By June 1937 British fears had become a reality. Since the beginning of the civil war the Republic had strenuously tried to keep up iron ore exports to Britain, but from the beginning of 1937 Franco had been intensifying his naval blockade of the North. As a number of British ships were involved in the transport of iron ore, the British government decided to escort these ships with destroyers. Despite British protection the amount of Republican ore arriving in British ports was reduced to a trickle by mid-April.[284]

Franco´s offensive, which had commenced in April, made an immediate impact on iron ore exports to Britain. The Nationalist naval blockade, a chronic shortage of shipping and the effects of Franco´s land campaign combined to create this situation. In the meantime, the Nazi regime anticipated the benefits of the eventual conquest of the Basque province and the seizure of its iron ore production and stocks. In May, a month before the conquest of Bilbao, HISMA concluded an agreement with a company in Nationalist Spain with regard to the working of the Bilbao iron ore district.[285] Immediately after the fall of Bilbao, a meeting was arranged between Franco, von Jagwitz, Faupel and Bernhardt in Salamanca. Germany´s representatives unanimously expressed her need for Basque iron ore. In fact, they passed on Göring´s demand that all Spanish iron

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[282]J. Harrison, An Economic History of Modern Spain, Manchester:1978, p.145.
[283]ADAP, D, III, p.436, Footnote 2;R. Whealey, Hitler and Spain, p.158; A. Viñas, *Politica comercial exterior*, p.183.
[284]PRO CAB23/88, Cabinet meeting of 19/4/1937.
[285]BA R121/858, Report on the history of Minerales de España.

ore production and stocks should be handed over to Germany. At the end of the meeting, the German representatives left under the assumption that Franco had agreed to this demand. Furthermore, they came to believe that he had not entered into any agreement with Britain over the question of Basque iron ore.[286] At the same time, however, the British government was convinced that an agreement would be forthcoming. Only three days before the meeting at Salamanca and just two days after the fall of Bilbao, Nicolás Franco assured the Commercial Secretary of the British embassy in Hendaye `that the United Kingdom would continue to receive its minerals from Bilbao.´[287] Clearly, Franco could not antagonize his German ally, but he also needed to appease an economic and financial power whose influence could not be easily dismissed. Hence the conflicting assurances.

After the conquest of the British pyrite mines in southern Spain, Franco had demonstrated his policy of ignoring existing contracts of companies. The case of the main British iron ore producer in Spain, Orconera, was no exception to this policy. As soon as Franco´s troops had taken Bilbao, existing iron ore contracts were shelved. Through the newly installed *Comisión de Regulación Económica de Vizcaya y Santander* Franco could approve or reject any new contracts. Thus, for over a month Franco prevented the export of iron ore to Britain. The ban was eventually lifted at the end of July 1937 with an official declaration that Britain, Holland, and Germany would receive their regular iron ore imports. The only qualification of the statement referred to special measures, should political or economic reasons require these.[288] Yet, it took until 25 August before the first British ship with Orconera iron ore was allowed

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[286]BA R121/860, Report on meeting of 24/6/1937. See also A. Viñas, *Política Comercial Exterior*, p.171.
[287]PRO FO371/21311/1248, Report, Sir Henry Chilton to FO, 21/6/1937.
[288]A. Viñas, *Politica comercial exterior*, p.170.

to leave Bilbao for Cardiff.[289] In September 1937, Britain then managed to import 55,863 tons of iron ore from Bilbao, followed by an increase to 73,442 tons in October.[290]

Despite further complaints from British companies thereafter[291], economically speaking, the worst was over for Britain. Franco had not really been interested in cutting his territory´s economic links to Britain. Nor, obviously, had the British government. Despite its non-recognition of Franco´s regime, and numerous complaints about the treatment of British companies in Nationalist Spain, economically, Britain treated Franco Spain much more favourably than the Spanish Republic. In the first nine months of 1937 British goods of a total value of £2,798,000 reached the whole of Spain. The Nationalists´ share of this amount came to about 75 per cent. In the year as a whole Franco Spain imported British goods with a value of about £2.4 million.[292]

Table 7: TRADE BETWEEN UNITED KINGDOM AND SPAIN (incl. possessions), 1935-37, in £

Year	UK Imports	UK Exports
1935	13,253,598	6,712,858
1936	12,573,450	3,823,884
1937	11,149,053	2,923,953

Source: PRO FO371/22678/608.

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[289]FCO AA2938/D569752, Letter, German embassy (Madrid) to German Foreign Ministry, 1/9/1937.
[290]FCO AA2938/D569794, Report by Sabath (based on *Boletin Minero e Industrial*), 5/1/1938.
[291]See, for example, PRO FO371/21316/20245, Letter, R. Fraser (BoT) to Mr. Howard (FO), 3/11/1937 about a complaint by the Bilbao Manager of Orconera. He objected to the authorities in Bilbao making it difficult to ship iron ore to the UK.
[292]A. Viñas, *Política comercial exterior*,p.155; E. Moradiellos, *Neutralidad Benévola*, p.355.

British companies certainly regarded Franco Spain as a more reliable trading partner than the Republic. Indeed, the preferential economic treatment of Nationalist Spain was more or less a reflection of the attitude of a majority in the government and in the ranks of the Conservative party. For many members of the party support for non-interventionism proved to be a convenient way to support Franco.[293] Members of the cabinet, such as Eden, who became increasingly worried about the possibility of a Francoist victory, constituted a small minority.[294] Complaints by British companies were registered and, some kind of action, albeit mild, was usually taken. In general, however, as a counter-argument against such complaints, complainants were advised that British companies in Republican Spain had to cope with similar, if not more difficult problems.

Moreover, complaints by companies such as Rio Tinto and Orconera did not necessarily denote any hostility to the Franco regime. Indeed, Robert Whealey goes so far as to conclude that `Rio Tinto co-operated with Burgos from August 1936 to the end of the war.´ If Whealey´s point of view is accepted, Sir Auckland Geddes´ stand against Franco would seem to have been no more than a ploy to bully Franco into easing his pressure on Rio Tinto. Yet, it is likely that Geddes´ attitude of hostility to Franco was sincere, but that it did not necessarily reflect the attitude of other influential Rio Tinto officials. In fact, Whealey bases his line of argument mainly on the opinions of Captain Ulick de B. Charles, manager of Rio Tinto in Spain, who was an outright pro-Nationalist.[295] British companies in Spain were less worried about the nature of the prevailing government than about their individual economic and financial performance. It is, for example,

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[293]N. Thompson, The Anti-Appeasers. Conservative Opposition to Appeasement in the 1930s, Oxford:1971, p.116.
[294]For Eden´s view see Earl of Avon, The Eden Memoirs. Facing the dictators, London:1962, *passim*, but particularly p.441.
[295]R. Whealey, "How Franco financed his war - Reconsidered", p.256, based on PRO FO371/20527/7935.

quite revealing that Geddes had been displeased about Rio Tinto´s economic performance in Spain even before the outbreak of civil war. The opening of new mines in other countries and an increasing preference for non-arsenical pyrites had, indeed, already caused problems for the Spanish branch of the company.[296] The financial burdens Franco imposed on British companies only helped to exacerbate these problems. Not only did he prevent them from repatriating profits to London, but he also charged export levies. In addition, prices for requisitioned raw materials were fixed at a lower level than market prices. In the case of Germany this amounted to a `discount´ of 6 per cent for pyrites. Finally, Franco forced British companies to accept rather unfavourable deals under his foreign exchange scheme. While prices were calculated in pounds sterling, companies were paid in pesetas at an artificially low rate of around Pts 42 to the £ (compared with a black market rate of Pts 100 to the £).[297] Thus, companies ended up with large peseta accounts, but with little pounds sterling to pay for their expenses and goods unobtainable in Spain such as machinery and coal. It is not surprising, therefore, that British companies in Franco Spain were not really pleased about their economic position.

At the end of 1937 the British government could look back upon a troublesome year with regard to its economic relations with Nationalist Spain. Yet, it could also point to trade figures which showed promising signs in the overall trading situation.[298] Indeed, and despite all the problems British pyrite companies had encountered, pyrite imports from Spain had, in fact, increased considerably by comparison with the previous year and even with the last pre-

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[296]J. Edwards, The British Government and the Spanish Civil War,p.89.
[297]PRO FO371/21299/15799, FO memorandum on British relations with Franco, 17/8/1937; J. Edwards, The British Government and the Spanish Civil War, pp. 95 and 86, based on PRO FO371/20713/472; C. Harvey, "Politics and Pyrites", p.93; C. Harvey, The Rio Tinto Company,p.277.
[298]See page 87.

civil war year. If German efforts had failed to oust Britain, they had been more successful with regard to another competitor for Spanish pyrites - France. The obvious antipathy of Blum´s left-wing government towards the insurrectionists, and French aid to the Republic, made it a far easier target for Nazi pressure on Franco. Increasingly, Franco reacted dismissively to French attempts to take up economic relations with the Nationalists. By February 1937 Nazi pressure, aided by Franco´s aversion to France, had effectively cut down on the export of all Spanish pyrites for consumption in France.[299] Whereas France had imported considerably more than Britain in 1936, her import figure was substantially reduced in 1937, and pyrite imports from Spain stopped almost completely in 1938.[300] To a large degree, the massive increase of pyrite exports to Germany was therefore attributable to a cutback of exports to France, and not to Britain.[301]

Table 8: SPANISH PYRITE EXPORTS TO BRITAIN, GERMANY AND FRANCE
(in metric tons)

Year	To Britain	To Germany	To France
1935	208,548	562,584	292,436
1936	201,049	464,232	326,946
1937	302,084	956,000	96,785[302]
1938	320,119	895,511	1,457 (to 31/10)
1939	232,533	582,900	-----

Sources: PRO/FO 371/21303; PRO/FO 371/22673; BA R7/3279; BA/MA Wi/IB 2.3; FCO/AA 2938/D569798; ADAP, D, III, doc.507; H.- H. Abendroth, *Hitler in der spanischen Arena*, p.376; J. Edwards, The British Government and the Spanish Civil War, pp.82f.; R. Whealey, Hitler and Spain, p.85.

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[299]PRO FO371/21304/3522, Letter, Rio Tinto to Sir George Mounsey, 17/2/1937; ; ADAP, D, III, doc.221, p.206, Letter, Faupel to German Foreign Ministry, 21/2/1937; R. Whealey, Hitler and Spain, p.75; M. Einhorn, *Die ökonomischen Hintergründe*, p.145.
See AHN DG/DGA192, Memorandum by HISMA (?), 24/4/1937, on apparent French attempts to import pyrites via the Netherlands and Belgium.
[300]See Table 8 below.
[301]The Foreign Office argued that Germany also took some of the USA´s normal pyrite imports (PRO FO371/22673/15896, Report on supply of pyrites from Spain, 30/11/1938). See also H.-H. Abendroth, *Hitler in der spanischen Arena*, p.240.
[302]Based on figures from an IG Farben document in Washington, Whealey argues that French pyrite imports from Spain had already been down to 99,000 metric tons in 1936 and then fell to 1,500 metric tons in 1937 (R. Whealey, Hitler and Spain, p.85).

Table 9: SPANISH PYRITES AND TOTAL BRITISH AND GERMAN PYRITE IMPORTS

Year	Total British Imports (in tons)	From Spain (in %)	Total German Imports (in tons)	From Spain (in %)
1935	313,760	66.5	1,018,000	55.3
1936	316,062	63.6	1,042,000	44.5
1937	408,618	72.2	1,464,000	65.3
1938	407,780	81.1	1,430,000	62.7
1939	394,671	60.8	1,120,000	52.1

All figures previously in long tons converted into metric tons. Percentage figures based on my calculations.

Sources: Imperial War Museum (IWM) Speer Collection (SC) FD4646/45; K.-J. Ruhl, `Lálliance á distance´, p.76; W. Schieder, `Spanischer Bürgerkrieg´, p.178; J. Edwards, The British Government and the Spanish Civil War, p.82.

The British government had less reason for satisfaction with regard to iron ore imports from Spain and Spanish Morocco. These had remained static as a consequence of the civil war and German competition.

Table 10: IRON ORE FROM SPAIN AND SPANISH MOROCCO AND TOTAL IRON ORE IMPORTS TO GERMANY
(in metric tons)

Year	UK imports	German imports	% of total German imports
1935	1,380,000	1,320,596	9.3
1936	1,365,891	1,659,282	5.7
1937	1,367,484	1,620,000	7.5
1938	673,896	1,807,100	8.2
1939	not known	798,600	5.9

Sources: PRO/FO 371/21317; PRO/FO 371/24144; PRO/FO 371/24161; FCO/AA 2938/569799; BA R7/734; BA R7/736; BA/MA Wi/IB 2.3; ADAP, D, III, doc.507; A. Viñas, *Política Comercial Exterior*, p.174; J. Edwards, The British Government and the Spanish Civil War, p. 94; R. Whealey, Hitler and Spain, pp.85f; K.-J. Ruhl, `Lálliance á distance´, p.75.

Germany´s penetration of the Moroccan ore market, and to a lesser extent the military campaign in northern Spain and the eventual conquest of the North, had both influenced British imports. Overall, however, it had become clear by the end of 1937 that Germany had succeeded to a limited extent in reducing Britain´s economic position in Franco Spain. Indeed, the Nazis had to anticipate that British competition would threaten any economic gains once the civil war was over. In October 1937, the Foreign Ministry concluded that it would not be possible to keep Britain away from the Spanish market. Moreover, the Ministry was concerned that the economic competition between Germany and Britain in Spain might lead to unnecessary tensions. It would be more advisable to achieve a more equitable share out while, at the same time, holding on to Germany´s advantage.[303] While the British government relied on Britain´s financial strength and its close economic pre-civil war contacts in Spain to attract the winning side, the German government was afraid it could lose some of its newly acquired economic influence after the war, particularly in view of the limited German investment in Spain. German efforts to achieve a more permanent presence within the Spanish economy were focussed on the MONTANA project.

To achieve a permanent foothold in Spain´s economy, the Nazi regime decided to utilize the increased influence resulting from its intervention in the civil war. In a ministerial meeting on 18 February 1937 Göring adopted HISMA/ROWAK´s recommendation and ordered the purchase of mining rights in Spain.[304] HISMA/ROWAK had, in fact, already started to examine the

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[303]ADAP, D, III, doc. 440, pp.391f., Letter, Benzler (AA) to Germany embassy in Spain, 16/10/1937. For an early realization of the danger of British economic competition in Spain, see ADAP, D, III, doc.128, p.120, Telegram by *chargé dáffaires* Völckers to German Foreign Ministry, 24/11/1936.

[304]BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940.
Based on a document of the RWM in the National Archives, Washington, Whealey asserts that the new mission was specifically given to Bernhardt. (German Econ. Min. 32/426048-70, microcopy T-71). This reference is one of the very few on MONTANA in Whealey´s book Hitler

possibility of an expansion of Germany´s economic interests into the Spanish mining sector. The organization had been coordinating the temporary transfer of individual German experts to Spain to undertake geological research.[305] Following Göring´s order in February, a growing number of geologists and mining engineers from *Dienststelle Keppler* was sent to Spain. Based on recommendations from these experts HISMA started the clandestine acquisition of numerous mining rights. Initially, HISMA tried to keep a low profile in these transactions and employed front men in the purchases. The organization feared that an obvious German interest in Spanish mining rights might lead to an increase in prices.[306] More importantly, it was worried that the Franco government might become aware of Germany´s intentions - which it, indeed, very quickly did. The reaction of the Nationalist administration to HISMA´s activities was to occupy centre-stage of the economic relations between Franco Spain and Nazi Germany until the end of 1938.

It was to be expected that there would be an adverse Nationalist reaction to German attempts to consolidate their economic position in Spain, not least because, ultimately, HISMA´s activities were not intended to remain confined to the development of a mining empire, the project which became known as MONTANA. In a much grander scheme, the ultimate intention of the National Socialist leadership was to turn Spain into an economic colony, a source of raw materials for German industry, and particularly those sectors concerned with rearmament, as well as a buyer of German manufactured goods. In pursuit of this objective, HISMA received orders not only to acquire mines and mining rights, but also to found commercial companies which could deal with a

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and Spain. Whealey is not really concerned with MONTANA despite the importance of the project for the relations between Germany and Franco Spain (See Hitler and Spain, pp.83-84).

[305]FCO AA1534/374450, Letter from Körner, Office for Four-Year-Plan, to Reichs Chancellery, 9/2/1937. The letter contained a request by ROWAK to allow Professors Dr. Quiring and Dr. Schneiderhöhn (director of the Mineralogies Institute, University of Freiburg) to travel to Spain.

[306]BA R7/738, unsigned memorandum *Entstehung*,15/3/1940.

coordinated purchase of Spanish raw materials and products. By early May 1937 four such companies had been formed. Three of the four companies were established to perform tasks which had previously been within HISMA´s area of responsibility. Originally limited companies, all four were changed into joint-stock companies at the end of 1937.[307] The most important of the four new companies, Minerales de España, had emerged from HISMA´s shipping and mining department in early May 1937. Its task was to purchase ores and to organize ships for their transport to Germany. From the end of August to the end of December 1937 alone, the company managed to transport about 300,000 tons of iron ore from the Bilbao area to Germany, most of it on Spanish ships.[308]

A second company, Sociedad Exportadora de Pieles also emerged from within HISMA´s area of responsibilities, involved in the export of Spanish furs. Additionally, it temporarily became the representative of the German naphthalene syndicate in Spain.[309] The third new enterprise, Compañía General de Lanas R. Rahlke & Cie., involved itself in a similar line of business. Again, its activity had also previously been undertaken by HISMA. The company was founded on 13 March 1937 in Salamanca to supply Germany with wool and animal hair.[310] Finally, the purpose of the fourth new company, Productos Agricolas Ltda., Ernesto Peche y Compañía, was to venture into any kind of agricultural transactions, that is the purchase and export of agricultural products as well as the acquisition of property. Although the company was founded in March 1937, it did not commence business before the beginning of 1938. Further commercial companies were added during the course of 1937 and 1938.

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[307]BA R121/842, Undated report on development of HISMA.
[308]BA R121/858, Undated report on Minerales de España; A.Viñas, *Politica comercial exterior*, p.171.
[309]BA R121/859, Undated report on Sociedad Exportadora de Pieles.
[310]BA R121/835, Undated report on Compania General de Lanas.

Table 11: ROWAK-COMMERCIAL COMPANIES IN SPAIN

Company (abbreviation)	Founded/ Acquired	Share Capital (in Pts)	Purpose
Minerales de España (Minerales)	5/5/1937	3,000,000	Im/Export of ores
Sociedad Exportadora de Pieles (Pieles)	25/2/1937	2,100,000	Export of skins and furs
Cia. General de Lanas (Lanaco)	31/12/1937	2,100,000	Export of wool, textiles
Corchos zum Hingste (later Corchos de Andalucia)	10/5/1938	3,000,000	Export and prod. of cork
Hermann Gärtner S.A. de Productos Resinosos (Gärtner)	30/9/1937	2,100,000	Export of resin, turpentine
Francisco Mawick	25/2/1937	n/a	Export of Moroccan prod.
Scholtz Hermanos (Scholtz)	1/4/1938	2,100,000	Export and prod. of wine
Productos Agricolas (Prodag)	20/3/1937	2,500,000	Im/Export of agricultural products
Agro	6/12/1937	4,000,000	Agricultural production
Transportes Marion	Nov. 1936	2,100,000	Transportation
Nova S.A. Installación y Explotación de Industrias	1/8/1937	4,000,000	Import/Export; contact company to Spanish industry

Sources: BA R121/765,BA R121/805, BA R121/829, BA R121/831, BA R121/835, BA R121/841, BA R121/849, BA R121/858, BA R121/859, BA R121/1206, BA R121/2077.

Nonetheless, the main project remained MONTANA. By early May 1937 it was still in a preparatory stage.[311] The German geological experts who had been sent to Spain supplied HISMA with reports, and HISMA bought accordingly. Two months later, Germany signed the aforementioned three protocols with Franco Spain. From a German point of view HISMA´s purchasing activities received a legal boost by the third protocol.[312] ROWAK instructed

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[311] BA R121/860, Report on the state of the raw material purchasing companies, 3/5/1937.
[312] See Chapter I, p. 58.

HISMA to regard the protocol as a legal basis to acquire economic interests in Nationalist Spain. During the course of 1937 and 1938, HISMA therefore concentrated on the acquisition of a substantial amount of mining rights. The total figure is a matter for discussion, but there is no doubt that 73 mining rights were purchased before 9 October 1937.[313] The date is of particular importance as it marked the first major attempt by the Franco administration to curtail Germany´s economic expansion in Nationalist Spain. This attempt was expressed through a new mining decree which, published three days later, took effect on that particular day. It effectively declared the acquisition of mining rights undertaken after 18 July 1936 illegal, and suspended all purchasing activities in that sector.[314] Just when Germany believed it was on course to create a mining empire in Spain, it had experienced an unexpected set-back.

Only two days before the decree was signed, Bernhardt had returned from a visit to Germany. Unaware of the imminent threat to his plans, he met Wilhelm Pasch, a key figure in the MONTANA project, and they set out to finalise the takeover of mining rights already purchased by Pasch and his staff.[315] On 11 October 1937 Bernhardt attended a meeting with the Nationalist ministers Bau and Jordana in which he intended to discuss Germany´s involvement in the Spanish mining sector. Neither Bau nor Jordana mentioned the new decree, and thus Bernhardt was still unaware of it when the meeting was adjourned

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[313]ADAP, D, III, doc.484, p.449, Memorandum by Stohrer, 16/12/1937. Eberhard von Stohrer had become Faupel´s successor as German ambassador in September 1937.
Total figures for 1937 and 1938 vary between 135 (BA/MA RL2 IV/1 D1, Report about *Unternehmen Feuerzauber,* by General Schweickhard, 8/3/1940) and over 200 mining rights (BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940). Abendroth agrees with the first figure and argues that the RWM, supplier of the second figure, was wrong. Whealey, on the other hand, quotes the second figure (H.-H. Abendroth, *Hitler in der spanischen Arena*, p.243 and footnote 45 on p.377, based on Schweickhard study; R. Whealey, Hitler and Spain, p.83, based on document 32/426048-70, microcopy T-71).
[314]ADAP, D, III, doc. 435, p.387, Copy of decree, 12/10/1937; FCO AA4445/E086245, Mining decree in Spanish and German, 12/10/1937; A. Viñas, *Política Comercial Exterior*, p.182.
[315]Bernhardt left the running of MONTANA to Wilhelm (or Guillermo) Pasch Juffernbusch. This was also the impression gained by the British government. According to one report Pasch was owner of the firm G. Pasch Hermanos in Bilbao which was regarded as a front for the MONTANA project (BA R121/835, Undated report on MONTANA; PRO FO371/22681/7525, Report by Mr. Jerram, 3/6/1938).

until the next morning. By that time the decree had been published. Both Jordana and Franco, whom Bernhardt was to meet on the evening of the twelfth, assured Bernhardt that the decree was not directed against Germany at all. It was rather an attempt to stop the sale of Spanish property in the `Red´ territory.[316] The German embassy, hitherto apparently not even aware of MONTANA, received a similar reply from the regime shortly afterwards. The general line was that `German rights would obviously be guarantied in some way or another.´ During the meeting with Franco, Bernhardt emphasized that Germany was involved in an economic war, and just as Germany was helping the Nationalists in their war, Germany expected help from the Nationalists. Evidently, Bernhardt expected that MONTANA would receive some kind of special treatment as far as the decree was concerned.[317]

However, Bernhardt´s optimism did not last for long. He soon became convinced that the decree was directed against Germany, after all. His mistrust was confirmed in a conversation with Nicolás Franco who claimed that the decree was mainly directed against Germany.[318] It appeared that General Franco was trying to thwart Germany´s attempts at an economic exploitation of Spain. As a `true´ nationalist, he rejected crude National Socialist attempts at using the war for Germany´s own purposes. Yet, Franco was well aware that he was walking a tightrope. He could not spell out his attitude directly for fear of losing Germany´s military support. Thus, and despite what his brother had made clear to Bernhardt two weeks previously, he reiterated to ambassador Stohrer that the decree was solely directed against the Republic.[319]

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[316]FCO AA2946/576066-068, Report by Bernhardt on MONTANA, 4/11/1937; H.-H. Abendroth, *Hitler in der spanischen Arena*, p.242.
[317]FCO AA2946/576076, Addendum to a report by Bernhardt on MONTANA, 4/11/1937.
[318]ADAP, D, III, doc. 464, p. 426, Report by Bernhardt on MONTANA, 4/11/1937; FCO AA2946/576108-115, Memorandum on a meeting in the German embassy, 21/12/1937. For the British embassy there was also no doubt that the decree was aimed against Germany (PRO FO371/22681/7525, Report by Mr. Jerram, 3/6/1938).
[319]ADAP, D, III, doc. 469, p.433, Telegram, Stohrer to German Foreign Ministry, 17/11/1937.

Although Franco tried to play down the impact of the decree and to reassure Germany about the issue, German officials became increasingly anxious, and occasionally furious, about the way they were being treated. In a meeting with von Jagwitz in November 1937, Göring nearly exploded about Franco´s attitude. He demanded that von Jagwitz should meet him immediately and `hold a pistol to Franco´s head´, in short, to threaten him with an end to Germany´s war *materiél* deliveries. Göring was particularly angry because the decree coincided with economic negotiations between Britain and Spain[320] and the aforementioned exchange of `agents.´ Clearly, Göring suspected that the Nationalists were using Germany while, at the same time, they were wooing Britain.[321] Apparently, von Jagwitz was able to convince the Reich minister that a more subtle method of negotiations should be given a chance first.[322] For the next year, HISMA and the German embassy constantly nagged the Franco administration. The available evidence suggests that the matter of Germany´s economic expansion had risen to the top of the agenda of Germany´s intervention in Spain. In quite dramatic words, Bernhardt summed up the importance of MONTANA: `We are aware that, in the economic field, the MONTANA project makes up the whole purpose of our aid for Spain.´[323]

Göring underlined his support for Bernhardt´s activities by promoting him to the position of special representative for economic questions in Nationalist Spain.[324] Indeed, this step was designed to demonstrate to Franco the importance of Spanish raw materials for Germany, particularly with regard to Four-Year-Plan requirements. In addition, the timing of the appointment, at the

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[320]See ADAP, D, III, docs. 440 and 454, pp 391f. and 405f.
[321]See, for example, H.-H. Abendroth, *Hitler in der spanischen Arena*, p.238.
[322]ADAP, D, III, doc.470, pp.433-435, Memorandum by Mackensen, 25/11/1937. See also ADAP, D, III, doc. 479, pp.445f., Letter, Mackensen to Stohrer, 3/12/1937.
[323]ADAP, D, III, doc. 464, p.427, Report by Bernhardt on MONTANA, 4/11/1937 [author´s translation, C.L.].
[324]ADAP, D, III, doc. 474, pp.439f., Memorandum by Wiehl, 30/11/1937. See also *ibid.*, doc. 491, p.458, Undated memorandum by Stohrer; H.-H. Abendroth, *Hitler in der spanischen Arena*, p.244.

end of November 1937, can be viewed as a reaction to the exchange of agents between Britain and Nationalist Spain.

Franco, on the other hand, continued in his attempts to allay German fears. He denied having given any concessions to Britain, and tried to bide his time as far as MONTANA was concerned.[325] For a while, the discussion was moved to the field of legalistic wrangling. Again and again, German officials emphasized the third protocol from July 1937 as giving Germany the right to develop economic interests in the Nationalist territory.[326] In response, Spanish officials frequently referred to the section in the protocol which declared that any acquisitions had to be in accordance with general Spanish jurisdiction. Eventually, they also came up with the legal `fact´ that foreigners could only hold 25 per cent of shares of Spanish mining companies.[327] Bernhardt and Pasch reacted to this legalistic defence by pointing at British mining companies in Spain, which usually controlled 100 per cent of their mining rights. Both sides frantically sought out Spanish laws, particularly dating from the 1920s, which might help to substantiate their position.[328] A clarification of the legal position became a necessity as both sides continued to meet without coming to any mutual understanding.

In the meantime, and despite legal uncertainties, HISMA continued to lay the groundwork for a German commercial and mining empire in Spain. Just over two months before the mining decree of October, Nova S.A. Instalación y Explotación de Industrias, one of the more important companies within this

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[325]FCO AA2938/D569780, Telegram, Stohrer to German Foreign Ministry, 3/12/1937; ADAP, D, III, docs.480 and 482, pp.446f. and 447f., Telegram, Stohrer to German Foreign Ministry, 4/12/1937 and Letter, German Foreign Ministry to German embassy, Salamanca, 13/12/1937.
[326]BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940.
[327]ADAP, D, III, doc. 484, p.449f., Memorandum by Stohrer, 16/12/1937; ADAP, D, III, doc.487, pp.451-453, Letter, German embassy to German Foreign Ministry, 19/12/1937.
[328]ADAP, D, III, doc.490, pp.454-457, Memorandum by Stohrer, 21/12/1937; ADAP, D, III, doc.491, pp.458f., Undated memorandum by Stohrer. For more information on the legal debate, see H.- H. Abendroth, *Hitler in der spanischen Arena*, pp.242ff.

planned empire, had been founded. Its initial purpose was the `setting-up of industries and the supply of all kinds of materials, machines and goods to Spanish producers.´ This implied that Nova was on the look-out for business opportunities for German industry in Spain as well as being involved in the actual import of German goods for Spanish customers, particularly in the Nationalist arms industry.[329] After the civil war, Nova was turned into an advisory and contact office for Francoist officials involved in the reconstruction of Spain.[330] In December 1937 Bernhardt arranged for the foundation of Agro S.A., a company which was to `administer and develop agricultural estates ... in view of the interests of Germany´s food policy.´[331] In January 1938 Agro´s task, which included the purchase of land in Spain, formed the basis of a meeting in Berlin between officials of the Food Ministry, the Reich Finance Ministry and ROWAK. Although participants of the meeting did not express it in such words, the basic conclusion emerged that the scheme made no economic sense. If it was going to be successful at all, this would take at least ten if not twenty years, always assuming that the Franco administration would allow the continuation of the scheme. The meeting admitted that Agro´s project might make political sense if it led to cooperation between German and Spanish officials. The issue was thus passed on to the German Foreign Ministry. Yet, Sabath, as the ministry official examining the issue, could detect no political advantage in the scheme.[332] It is an indication of the fanaticism of National Socialist officials such as Bernhardt that Agro was continued despite the scepticism which emerged from the meeting. In summer 1938 the company finally commenced activities with the experimental growing of new soy seeds.

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[329]BA R121/831, Undated report on Nova; BA R121/805, Audit at Nova, 31/12/1939. Nova is the only company within HISMA´s "empire", Whealey regarded worth mentioning. Without giving a source for his information, he emphasizes the importance of the company as it `had a monopoly on sales of German communications and transportation equipment - and on arms imported from ROWAK´ (R. Whealey, Hitler and Spain, p.84).

[330]FCO AA5206/E307837f., Letter, Von Jagwitz (RWM) to German Foreign Ministry, 17/4/1939.

[331]BA R121/1206, Undated report on Agro [author´s translation, C.L.].

[332]ADAP, D, III, doc.504, pp.475f., Memorandum by Sabath, 17/1/1938.

Despite the foundation of various companies in late 1937, MONTANA remained at the heart of Germany´s economic expansion in Spain. Exposed to incessant German pressure, the Franco government eventually decided to clarify the legal situation. The new Nationalist Minister for Commerce and Industry, Juan Antonio Suances, admitted as much in his first meeting with Stohrer in February 1938. On several occasions, Suances mentioned the possibility of German ownership of 40 per cent of the mining rights while the remaining 60 per cent would have to be Spanish-owned.[333] This train of thought came to form the basis of renewed discussions amongst Nationalist ministers, particularly after Franco had demanded a clear decision on 19 March by ordering Suances to work out a new mining decree.[334] While Stohrer and HISMA still hoped that the Nationalist government would not introduce a percentage limitation on foreign ownership, Suances had already made up his mind about exactly such a restriction. Finally, towards the end of May 1938, it dawned on Stohrer and Bernhardt that the introduction of an unwelcome limitation was inevitable.[335] In a last attempt to convince the government to change its mind, Stohrer intervened again and achieved at least an improvement of the intended percentage restriction from 25 to 40 per cent. Furthermore, a paragraph was added to the final version of the new decree which allowed the Nationalist government to agree to exceptions to the 40 per cent rule. According to Jordana this was the utmost his government had been able to do to accommodate German demands. On 6 June 1938, he informed the German ambassador about the new law and told him that it had already been signed by Franco.[336] According to Jordana alterations were therefore impossible.

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[333]ADAP, D, III, doc. 532, p.509f., Letter, Stohrer to German Foreign Ministry, 17/2/1938.
[334]ADAP, D, III, p. 540, footnote 2; H.-H. Abendroth, *Hitler in der spanischen Arena*, p.248.
[335]H.-H. Abendroth, *Hitler in der spanischen Arena*, p.250.
[336]For an English translation of the mining law see PRO FO371/22672/8071.

Stohrer was obviously not very pleased about being faced with a *fait accompli*, and he reminded Jordana about Germany´s sacrifices for Nationalist Spain. Privately, however, he expressed the view that the law was, in fact, quite acceptable to Germany.[337] Indeed, Bernhardt fully agreed with this assessment, particularly as both he and the ambassador believed that Germany could still secretly control the acquired companies.[338] Bernhardt planned to circumvent the 40 per cent rule by using Spanish front men to buy more shares. In addition, front men would also be used to fill leading posts within the mining companies to comply with the fourth article of the new law which imposed a strict limitation on foreigners in these positions.[339] Despite possible ways to get around the 40 per cent rule, there was the danger that the Franco government would insist on a single owner for the remaining 60 per cent. Bernhardt therefore urged the Nationalist leadership to allow the free sale of roughly 20 per cent of the shares. In a conversation with Suances, he defended his proposal by arguing that it would prevent the isolation of MONTANA from Nationalist private interests. Undoubtedly, however, the real reason for his appeal was the fear that HISMA might otherwise find it impossible to use its front men.[340]

Despite the limitation on foreign ownership in the new mining decree, HISMA viewed the new legal situation as an improvement on the previous uncertainty. As a result, HISMA showed renewed zeal in the organization of MONTANA. It was planned to distribute acquired mining rights on mainland Spain among five mining companies. This was quickly put into action in September and October 1938. Beginning with Compañía de Explotaciones Mineras Aralar S.A. on 15 September and completed with the foundation of

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[337]ADAP, D, III, doc. 595, p.572, Telegram, Stohrer to German Foreign Ministry, 6/6/1938; ADAP, D, III, doc. 596, pp.572-577, Memorandum by Stohrer, 6/6/1938; BA R7/738, Origins of HISMA/ROWAK, 15/3/1940; H.-H. Abendroth, *Hitler in der spanischen Arena*, pp.251f.
[338]FCO AA2946/D576279-281, Memorandum by HISMA on new mining law, 9/6/1938.
[339]ADAP, D, III, doc. 603, pp.582f., Letter, Stohrer to German Foreign Ministry, 10/6/1938.
[340]ADAP, D, III, doc. 634, p.608, Memorandum by Kreutzwald, 9/7/1938.

Montes de Galicia, Compañía Explotadora de Minas on 20 October, these five companies - and a sixth company in Spanish Morocco which was founded in early 1939 - were established with the purpose of restructuring Germany's mining empire in Spain.[341] This included a selective process: Only mining rights which were regarded as worth mining were transferred to the six companies. All others were either abandoned or left in MONTANA which was now transformed from the original project into a proper company. On 20 October 1938 it was re- founded in Bilbao as Montana S.A. de Estudios y Fomento Minero. Pasch continued to be the leading figure within the `new' Montana. After the transfer of most of the mines to the new mining companies in late 1938 had already left Montana S.A. with little to do, its area of responsibility was even more restricted towards the end of 1939.[342] The six new companies, however, were ordered to look after all tasks involved in the production of raw materials. More mines and mining rights were to be acquired, existing ones had to be prepared for production, and refineries, and port and rail facilities, had to be established.

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[341] See table 12.
[342] BA R121/778, Undated report on Montana S.A.; BA R121/805 Audit of Montana, 31/12/1939; BA R7/738, Origins of HISMA/ROWAK, 15/3/1940.

Table 12: ROWAK-MINING COMPANIES IN SPAIN AND SPANISH MOROCCO

Company	Founded	Share Capital (in Pts)	Ore mined
Montes de Galicia Explotadora de Minas (Montegal)	20/10/1938	16,000,000	Wolfram
Cia. de Explotaciones Mineras Aralar (Aralar)	15/9/1938	25,000,000	Iron ore
Cia. Minera Montanas del Sur (Montasur)	27/9/1938	20,000,000	Lead, iron ore
Cia. de Minas Sierra de Gredos (Sigredos)	22/9/1938	8,000,000	Ambligonite
Estudios y Exploraciones Mineras "Santa Tecla"	4/10/1938	12,000,000	Wolfram, tin
Cia. Mauretania	30/1/1939	10,000,000	Iron ore

Sources: BA R121/805, BA R121/2077.

However, the existence of the new mining companies continued to be shaky as long as Germany had not received final confirmation from Franco about the question of ownership of shares. The fortunes of war were to contribute decisively to the outcome of this crucial question. At the end of July 1938 Republican troops had launched a major offensive from Catalonia to reunite Republican Spain which had been split into two sectors in April. Strengthened by recent arrivals of war *materiél* which had been possible owing to the opening of the French border during the short-lived second Blum government and its successor led by Edouard Daladier, the Republicans initially caught Franco by surprise. Soon, however, the Republican offensive on the Ebro was checked. An atrocious battle of attrition ensued which exhausted both sides.

First signs of the dire situation of Nationalist stocks of war *materiél* appeared at the beginning of August when the army had to appeal for an urgent

supply of 8.8 cm ammunition.[343] Bernhardt immediately used the opportunity to contrast Germany´s willingness to help the Nationalists and their unwillingness to help Germany in the mining issue.[344] No immediate steps, however, were taken to react to Bernhardt´s reproach although Germany was again reassured about the matter. Critically, new war *materiél* supplies were not forthcoming in September as the European powers turned their attention to Czechoslovakia and the possibility of a European war. In a meeting with Bernhardt, Franco expressed his worries about Nationalist stocks of ammunition. He requested Germany´s renewed support. At the same time, he was so concerned about a possible French attack against his territory in Spain and Morocco that, at the height of the Czech crisis, he declared neutrality in the case of a war between Germany, and Britain and France.[345] Altogether, Hitler and Göring were not too happy about Franco´s neutral stance during the crisis although Stohrer showed some understanding about Franco´s difficult position.[346] On the other hand, the National Socialist leadership could not allow its *protegé* to lose the civil war. Even the possibility of a compromise peace between Republican Spain and Franco was not acceptable. Such an outcome would have amounted to a loss of face for the Nazi regime. Moreover, the Nazis would have failed in their objectives, economic, political and military. Certainly, Franco did not want a compromise peace and he renewed his urgent request for war *materiél;* a request which required a speedy solution that would damage neither his war fortunes nor Germany´s economic aims in Spain. To make matters even more complex Germany was increasingly concerned about Franco´s mounting debt and the fact that the Nationalists had not yet recognized the German debt

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[343]ADAP, D, III, doc. 651, p.621, Telegram, German embassy, San Sebastian, to German Foreign Ministry, 14/8/1938, based on a report by Bernhardt.
[344]ADAP, D, III, doc. 655, pp.623-625, Letter, Bernhardt to Stohrer, 27/8/1938, contains report of conversation with Fernando Cuevas of Nationalist Ministry of Commerce and Industry.
[345]ADAP, D, III, doc. 665, p.633, Letter, Bernhardt to Stohrer, 26/9/1938; ADAP, D, III, doc. 666, pp.634f., Telegram, Stohrer to German Foreign Ministry, 28/9/1938.
[346]ADAP, D, III, doc. 672, p.638, Letter, Stohrer to Weizsäcker, 2/10/1938.

figure.[347] By the beginning of November 1938 Germany finally agreed to new supplies for Franco, but only if he, in return, consented to Germany´s demands in the debt and mining questions.[348] As far as the latter was concerned, the objective was still majority control of shares of the five mining companies on mainland Spain and full control over Mauretania, the mining company in Spanish Morocco.

Faced with the urgent need for German war *materiél*, but also impressed by Hitler´s apparent success at Munich, Franco saw no other option but finally to accept Germany´s demands. On 19 November 1938 Jordana met Stohrer and announced his government´s decision to permit German control of the mining companies. On the debt question, he referred to the acceptance of Germany´s calculation of expenditure on the Condor Legion as a pure formality. Yet, he indirectly postponed the final decision on the debt question. In a *Pro-Memoria* which was handed to the German Foreign Ministry by the Nationalist ambassador in Berlin, this significant issue was not even mentioned. In December Jordana sent a final confirmation on the MONTANA project to the German embassy. In three of the five mainland mining companies Germany would be allowed to take a 75 per cent share, 60 per cent of all Sigredos shares would be controlled by Germany, only in Santa Tecla would German control remain at 40 per cent. Jordana also accepted that Mauretania would be fully owned by Germany. In view of German worries about the debt question, Jordana again admitted the outstanding debt on the Condor Legion. Yet, while he had referred to it as a `formality´ in November, Jordana now argued that the matter had to be checked thoroughly by the Franco government before any

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[347]ADAP, D, III, doc. 682, pp.649-651, Letter, Schlotterer (RWM) to Sabath, 18/10/1938.
[348]For the Condor Legion alone the German government calculated an outstanding debt of just over RM 190 million. The debt question will be covered in more detail in the following chapter (ADAP, D, III, doc.691, pp.662-664, Letter, Von Weizsäcker to German embassy, San Sebastián, 7/11/1938; see also BA/MA RM20/1259).

negotiations could be initiated . In fact, the debt question was to remain a problem for years to come.[349]

During the years 1937 and 1938 National Socialist views about Germany´s intervention in the Spanish Civil War became increasingly dominated by the possible economic benefits that could be drawn from Franco´s dependence on German supplies and manpower. Both Hitler and Göring were painfully aware of Germany´s weak economic role in Spain prior to 1936, particularly in comparison to her economic archrivals, Britain and France. German investment in crucial Spanish mining industries was virtually non-existent when measured against the dominant role British investment played in important areas such as iron ore and pyrite mining. Germany´s economic offensive during the Spanish Civil War was therefore two-pronged. It included, on the one hand, the attempt to force Franco to requisition products from foreign-owned mines for export to Germany, and on the other the attempt to establish a firm economic foothold in Spain by acquiring Spanish mines and properties. The latter project, code-named MONTANA, became one of Göring´s personal hobby-horses with Bernhardt, as his mouthpiece in Spain, at its helm. The German Foreign Office, on the other hand, was left with little say in Göring´s personal exercise in economic diplomacy. Ever since Göring had started accumulating increasing economic powers in Germany, culminating in his control over the new Four-Year-Plan in 1936, he had become obsessed with Germany´s raw material supply situation. Germany´s rapidly accelerating rearmament drive demanded constant increases in the provision of raw materials. The resulting increase in imports of raw materials put an enormous strain on Germany´s limited foreign currency reserves which led the Nazi regime to look for convenient and cheap

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[349]ADAP, D, III, doc. 698, pp.671f., Letter, Stohrer to German Foreign Ministry, 19/11/1938; ADAP, D, III, doc. 700, p.678, *Pro-Memoria* by the Spanish ambassador, 21/11/1938; FCO AA2946/D576370-371, Nationalist Ministry for Foreign Affairs to German embassy, 19/12/1938; ADAP, D, III, doc.703, pp.683f., Verbal note, Nationalist Ministry for Foreign Affairs to German embassy, 19/12/1938.

sources. It is obvious that in this context Göring´s eye fell on Nationalist Spain. By mid-1937 the Nationalists not only controlled the pyrite mining areas of Spain, but also the vast majority of Spain´s iron ore mines, two raw materials crucial to Germany´s rearmament. At the same time, Franco´s dependence on German support increased rapidly, yet he was unable to pay for the growing costs of Germany´s intervention. Göring concluded that this was the best moment to force Franco into major economic concessions, concessions which would ultimately lead to the establishment of a dominant economic role for National Socialist Germany in Nationalist Spain.

The Plenipotentiary for the Four-Year-Plan was therefore not at all pleased when Franco showed some resistance to the MONTANA project in late 1937. Franco knew that he played a dangerous game when he attempted to limit German ownership of Spanish mines. He could not risk losing Germany´s support. Yet, on the other hand, as a "true" nationalist he was not at all keen to allow more Spanish industries owned by foreign investors. In the end, however, he had to withdraw gradually from his initial position. The Nazis had played their own dangerous game and won it - at least temporarily. Although Hitler wanted Franco to win the war, he accepted Göring´s demand for Spanish concessions in the MONTANA project. The Nazis therefore put Franco´s victory at risk by withholding war *matériel* in the second half of 1938 - until MONTANA had been concluded to Göring´s satisfaction.

Yet, Franco was not beaten into submission and Nationalist Spain was far from having become an economic colony of National Socialist Germany. By the end of 1937 Franco had already demonstrated that he wanted to apply his own priorities when he allowed Britain to normalize her trading relationship with Nationalist Spain, including her import of pyrites and iron ore. Once the civil war was successfully concluded, the Nazis were left with only one major means of

blackmail: Spain´s enormous debt. It is the purpose of the following chapter to examine National Socialist attempts to pursue further their economic plans for Spain, and the effects of the outbreak of war in September 1939 on the economic relationship between Spain and Germany.

CHAPTER III

FROM CIVIL WAR TO EUROPEAN WAR: GERMAN-SPANISH ECONOMIC RELATIONS IN 1939/40

Although accepting all German demands over the MONTANA project was indeed a bitter pill to swallow, Franco had at least the consolation of having been restocked with German war *matériel*. Thus replenished, his troops were finally able to launch a massive offensive against Catalonia and its materially and morally depleted Republican army. Franco commenced his attack just before Christmas and, despite the wide-spread belief that his attack would develop into another long drawn out battle, he was able to conquer Barcelona by 26 January 1939. The rapid conquest of the rest of Catalonia followed soon after. Although a substantial part of Spain, including Madrid and Valencia, still remained under the control of the Republican government, the outcome of the civil war had become inevitable. By the end of February both the British and the French governments had drawn their conclusions about the situation in Spain and announced their recognition of Franco´s regime as the legitimate government of Spain. National Socialist Germany (as well as Fascist Italy) was now very close to her initial aim of nearly three years before: to help Franco to defeat the elected government of Spain and liquidate `red´ revolution. Militarily, final victory was imminent, politically, a friendly regime had been installed, and, economically, Spanish-German relations appeared to be heading for a bright future, particularly in view of the successful conclusion of the struggle over MONTANA.

During the first three months of 1939 the German embassy in Franco Spain and other German officials were engaged in planning for the future relationship between the new Spanish state and Nazi Germany. As far as economic relations was concerned, several urgent questions had to be

resolved. Among them was the future of the HISMA/ROWAK trading and clearing system. What was to be done with this system under peace-time conditions? As we know, the system had not endeared itself to many government officials in both Germany and Spain. On the other hand, it had served the Nazis well and it was difficult to imagine that Göring in particular would completely abandon the system, and with it his loyal aide Bernhardt. The Foreign Ministry was certainly keen to get rid of Bernhardt and, in 1939, it nearly managed to force his dismissal. When Göring´s attempt to meet Franco in Spain failed miserably in May 1939, the Ministry tried to put all blame on Bernhardt, as the organiser of the planned visit. Eventually, the Foreign Minister, Ribbentrop, drafted a letter in which he demanded Bernhardt´s immediate dismissal and removal from Spain.[350] Although the letter was not sent, Bernhardt had to thank Hitler´s personal intervention that he managed to hang on to his career.[351] Inspite of all of Bernhardt´s eccentricities and independent actions, which continued to cause him problems during World War II, he remained essentially the true representative of the economic aspirations of Hitler and Göring in Franco Spain. Göring´s protection in particular - in conjunction with the protective shield the AO provided - outweighed any objections the German Foreign Ministry, and especially the German embassy in Madrid, continued to entertain against Bernhardt.[352]

Despite the occasional minor, and sometimes major, hiccups Bernhardt had caused during the course of his involvement in the civil war as a result of

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[350]For Göring´s attempted meeting with Franco, see ADAP, D, III, docs. 788, 789, 793, 796, 797.

[351]FCO/AA 3882/E047573, Memorandum by Weizsäcker, 8/6/1939.

[352]By Summer 1940, Bernhardt had - apart from being managing director of SOFINDUS - accumulated an array of posts, such as president of Pieles, vice-president of Agro, committee member of Nova and Marion. Bernhardt´s attitude remained a threat to his career though it never put an end to it. Dismissal was, for example, again looming in November 1943 because he had started negotiations with Spanish officials without consulting his superiors in the RWM (BA R121/844, Correspondence of SOFINDUS advisory committee, 13/6/1940; BA R121/832, Meeting of the advisory committee of ROWAK, 4/11/1943).

his overbearing character, Göring was appreciative of his work as director of HISMA. After all, Bernhardt was able to point to some convincing statistics when claiming success for his organization.[353]

Table 13: GERMAN IMPORTS FROM SPAIN[354], 1932-1939, in mill. RM

	1932	1933	1934	1935	1936	1937	1938	1939
Import	98.9	86.5	99.7	118.3	97.7	123.4	110.1	118.9

Source: W. Schieder, `Spanischer Bürgerkrieg´, p.178 (cited from *Statistisches Jahrbuch des Deutschen Reiches*).

Despite the outbreak of civil war in Spain in 1936, German import figures kept up surprisingly well, surpassing the exceptionally good 1935 figure in 1937 and 1939, while in 1938 the value of imports from Spain exceeded the figures for the years 1932-34. Indeed, the figures are even more surprising if we consider that imports from Spain in 1937 and 1938 were received almost exclusively from Nationalist terrritory, while 1939 saw a disruption of trade owing to the outbreak of war in September. In addition, by 1937, the organization had managed to extract imports from Nationalist Spain which exceeded 1933´s total import value of RM 86.5 million and only fell short of the 1934 level by RM 2.9 million. In 1937 Spanish imports via HISMA/ROWAK accounted for 78.5 per cent of all Spanish imports to Germany. This figure increased to 81.1 per cent during the following year, and fell only slightly to 80.4 per cent in 1939.

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[353]See tables 13 to 16.
[354]Including trade with Spain´s overseas possessions, apart from Canary Islands.

Table 14: GERMAN IMPORTS FROM NATIONALIST SPAIN VIA HISMA/ROWAK CLEARING (IN MILL. PTS)[355]

Product	*1935*	1936	1937	1938	1939
Ores and minerals	*73.48*	18.0	68.4	118.7	66.6
Raw materials of plant origin	*23.05*	2.7	42.4	27.0	20.5
Raw materials of animal origin	*12.96*	2.6	71.6	23.7	26.0
Foodstuff and beverages	*58.72*	5.4	109.2	89.8	80.5
Citrus fruits & fruit	*164.53*	---	41.5	48.3	137.9
Total	*407.16*	28.7	333.1	307.5	331.5
(in mill. RM)	*118.3*	8.4	96.8	89.3	95.6

Source: BA R121/841, Audit of HISMA, 31/3/1939; BA R121/842, Notes on HISMA balance sheet, 31/12/1939.

From Göring´s point of view, as Plenipotentiary for the Four Year Plan, this success was magnified by the fact that HISMA had transformed the pattern of imported goods. Whereas in 1935 only 16.5 per cent of all imports from Spain had been ores and minerals, HISMA/ROWAK had increased this percentage to 20.5 per cent in 1937 and to nearly 40 per cent in 1938. As mentioned previously, HISMA/ROWAK proudly announced that, in 1937, `vital raw materials´ (iron ore, pyrites, wool, hides, resin and olive oil) accounted for about 80 per cent of all German imports from Spain, compared with only 35 per cent for the average pre-civil war year.[356] The import of fruit, on the other hand, had dropped considerably in 1937 and 1938, mainly because the fruit growing regions of Spain were largely controlled by the Republican government. Yet, the large drop of fruit imports in the previous two years (to between a fifth and a quarter of 1935) can partly be explained by the conscious effort of German officials to cut down on these imports in favour of

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[355]The figures for 1935 were drawn from Viñas´ statistics (A.Viñas, *La Alemania nazi*, p.190, based on statistics from the *Statistische Jahrbuch für das Deutsche Reich*) and transferred into Peseta amounts. They refer to the regular trade between the whole of Spain and her possessions (exluding Canary Islands) and Germany for that year.

[356]BA R7/738, Unsigned memorandum *Entstehung*, 15/3/1940; W. Schieder, "Spanischer Bürgerkrieg und Vierjahresplan", p.179.

important raw materials. In fact, the defeat of the Republic in 1939 was followed by a marked increase of Spanish fruit exports to Germany.

Table 15: GERMAN EXPORTS TO SPAIN[357], 1932-1939, in mill. RM

	1932	1933	1934	1935	1936	1937	1938	1939
Export	90.6	85.5	87.5	105.7	69.3	58.7	94.1	67.7

Source: W. Schieder, `Spanischer Bürgerkrieg´, p.178 (cited from *Statistisches Jahrbuch des Deutschen Reiches*).

The overall value of German exports to Spain (excluding war *matériel*) only reached comparable pre-civil war levels in 1938 when it exceeded the respective amounts of 1932-4. In 1936, 1937 and 1939 the value of German exports - excluding arms - to Spain remained well below pre-civil war levels. Yet, HISMA/ROWAK´s role in the export of German goods to Spain resembles its involvement in the importation of Spanish goods. The organization could truthfully claim that a majority of German exports were handled by the organization, 73.3 per cent in 1937, 66.9 per cent in 1938 and 88.3 per cent in 1939.

[357]Including trade with Spain´s overseas possessions, apart from Canary Islands.

Table 16: SPANISH IMPORTS OF GERMAN COMMERCIAL GOODS VIA HISMA/ROWAK CLEARING (in 1000 Pts)

Product	1936	1937	1938	1939
Construction material	---	950	1,636	1,681
Chemicals, dyes, pharmaceutical goods	2,643	36,170	42,466	55,328
Fertilizers	---	4,123	7,147	20,399
Steel barrels	640	990	3,456	96
Electrical material	336	5,569	13,965	10,318
Optical and fotographic goods	46	4,005	3,941	5,120
Glass, earthenware, china	7	1,454	2,219	1,324
Rubber goods	9	1,275	2,256	834
Steelware, tools, tin ware	25	11,583	17,801	11,145
Coal	3,710	33,265	13,684	1,451
Motor vehicles	---	10,370	16,458	17,974
Spare parts for vehicles	---	2,631	4,975	3,778
Leatherware & leather	---	1,098	2,458	2,329
Machines, engines, spare parts	---	4,933	31,182	28,566
Medical goods	2	4,122	8,683	6,112
Paper & stationery	140	2,891	2,611	11,922
Seeds	133	825	1,605	6,644
Textiles	8	7,990	16,113	8,197
Tinplate	---	3,394	9,142	6,995
Various others	1,480	10,379	14,775	5,561
Total	9,179	148,017	216,573	205,774
(in 1000 RM)	2,668	43,028	62,957	59,818

Sources: BA R121/841, Audit of HISMA, 31/3/1939; BA R121/842, Development of HISMA from July 1936 to December 1937, Audit of HISMA, Notes on HISMA balance sheet, 31/12/1939.

Apart from HISMA/ROWAK´s performance in the commercial field, a second matter, the question of the Nationalist indebtedness, had to be examined. Göring was particularly concerned about this problem. At the beginning of March 1939 he voiced his anger about an on-going discussion in other Reich government departments of a possible `rebate´ to Franco Spain.[358] According to Bernhardt, Göring wished this to remain an issue he would decide upon in due course.[359] Undoubtedly, the debt question was a matter of great importance, judging from the figures the Reich Finance

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[358]Franco was very keen on a rebate and continued to argue in favour of it throughout the following years. In a meeting in November 1940 with two of his negotiators with the German Government, Ginés Vidal y Saura and José María de Lapuerta, he reiterated that he expected `a very important global rebate´ (A. Viñas, *Política Comercial Exterior*, p.213).
[359]ADAP, D, III, doc.754,pp.736f., Letter, Stohrer to Wiehl, 11/3/1939.

Ministry regularly compiled. By the time Franco´s troops had finally secured complete victory over the Republic at the end of March 1939, Franco Spain´s debt to Nazi Germany had reached the preliminary figure of nearly RM 430 million. In fact, according to the final German government calculation of December 1940 - as shown in the following table - Spain´s debt turned out to be even higher.

Table 17: GERMAN EXPENDITURE ON INTERVENTION IN SPANISH CIVIL WAR (in RM), 13/12/1940

	Expenditure	Payment received by RFM	Outstanding amount
1) Bills prior to 7/11/1936	41,770,901.37	323,068.90	41,447,832.47
2) Bills for special deliveries and economic deliveries	123,765,090.35	73,302,508.99	50,462,581.36
3) Expenditure after 7/11/36 (*Übung Rügen*)	413,662,573.38	35,060,549.07	378,602,025.31
4) Other	----------	497,484.15	----------
TOTAL FINAL AMOUNT	579,198,565.10	109,183,611.11	470,014,954.99

Source: BA R121/1237, Enclosure III to a report by ROWAK on the Spanish civil war debt, 21/9/1956 (see also BA R2/23).

From a German point of view there was obviously no doubt that negotiations on the matter would have to be arranged as soon as possible. By the end of the civil war first priority was given to an examination of the overall state of Germany´s economic relationship with Spain as well as the state of her economic position within Spain. On this basis conclusions could then be drawn on how the Nationalist debt could be used to further National Socialist economic goals. Göring´s anger over discussions on any possible rebate has to be understood against this background. Quite clearly, he asked himself whether Franco deserved any rebates and whether Germany could actually

afford to be generous. Germany´s intervention in the civil war had been an extremely costly affair. Undoubtedly, some economic gains had come out of the intervention. HISMA had been successful in challenging the traditional trading pattern between Germany and Spain by securing substantial amounts of raw materials for Germany, a move away from the pre-civil war emphasis on agricultural goods. However, this did not alter the fact that - purely from an orthodox financial point of view - Germany´s intervention had turned out to be a costly affair[360] with few tangible economic returns.[361] It could even be argued that the vast amounts of German war *materiél* which found their way to Spain should instead have been sold to other countries, e.g. in the Balkans. In that way, German war *matériel* could have been more sensibly exchanged for foreign currency and important raw materials.

Yet, we have to contrast this valid consideration with the ideological perspective of the Nazi leadership. First and foremost, Hitler´s initial aims were clearly achieved. Spain had been saved from a perceived Communist danger. On top of that, a new regime had been installed in power whose apparent ideological closeness to Italy and Germany might be of use in future European developments and significantly enhanced the strategic position of the Axis. This latter result of the civil war was particularly significant in view of the new regime´s relationship to France. Despite the attempt of a *rapprochement* with Franco at the end of the civil war which culminated in the recognition of his regime, France would, in future, not be able to count on the

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[360]In hindsight, though nevertheless a substantial figure, Franco´s debt appears fairly small when compared to the massive amounts the Nazi regime spent on rearmament between 1936 and 1939. In the financial year 1938/39 alone Germany´s military expenditure is estimated to have amounted to RM17.2 billion, nearly half of her total state expenditure (R.J. Overy, "Hitler´s War and the German Economy: A Reinterpretation", Economic History Review 35 (1982), p.283; for Germany´s public expenditure in 1936 and 1937, see R.J. Overy, The Nazi Economic Recovery 1932-1938, London and Basingstoke:1982, p.50).

[361]The economic rationality argument is, for example, applied by Harvey. He argues that Germany and Italy `had contributed massively to the Nationalist war effort and obtained comparatively little in return´ (Harvey, The Rio Tinto Company, p.285).

support of her southern neighbour. In fact, from now on any French military planning for a future conflict with Germany would have to take into account the possibility of a hostile Spain at its southern flank and in Morocco.[362] Despite a somewhat improved relationship between Britain and the new Spanish government, the British could also not be absolutely sure about the future behaviour of a regime which was extremely vociferous about the Gibraltar question and its hatred of liberal democratic systems.

There can be no doubt that from the political and strategic point of view, the Nazi regime had gained from the outcome of the Spanish Civil War. Economically, Germany seemed to be heading for a similar result. Admittedly, Spain had only occupied a minor role as a trading partner before the civil war. Furthermore, superficially, there did not appear any hope for a sensational improvement, particularly in view of the exhausted condition of Spain after three years of fighting. By the end of the civil war, Spain had lost nearly 30 per cent of its maritime tonnage and half its stock of railway locomotives. Its industrial output was down by 31 per cent compared to 1935, in agriculture output had fallen by 21 per cent.[363] Yet, even before the end of the civil war these depressing facts did not cause undue concern in German government circles. Indeed, the need to reconstruct Spain opened up economic avenues in a way desired by the National Socialists. In an analysis of the situation, the British Foreign Office touched upon the truth of the matter when it concluded that Germany´s aim was to ruin Spanish industry, `reducing Spain merely to a raw material producing country.´[364] It was true that the Nazi regime was extremely keen to exploit Spain´s natural wealth and was not interested in assisting Spanish companies which might become competitors of German

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[362]For the strategic dilemmas confronting France during the civil war, see R. J. Young, In Command of France: French Foreign Policy and Military Planning 1931-1940, Harvard:1979, pp.136-139.
[363]S. Payne, The Franco Regime 1939-1975, Wisconsin:1987, p.246.
[364]PRO FO371/24145/1084, FO Minute, 30/6/1939.

producers. Yet, if certain Spanish industries fitted into National Socialist economic planning for war, they were to be helped. A report by the RWM compiled towards the end of 1938 examined the future economic relationship between the two states and came to the following conclusion:

> After the end of the Spanish Civil War a further expansion of economic relations is desirable. In the economic field the interests of both countries complement each other. Spain will increasingly supply Germany with required raw materials and agricultural products. German industry, on the other hand, will take part in the reconstruction of Spain.[365]

Indeed, Nova, one of SOFINDUS´ subsidiaries, was given the explicit task to assist Franco Spain in building up Spain´s infrastructure. This included plans for the construction of a car factory, the development of Spain´s railways and her radio and communications network. In addition, Nova was also supposed to help in the expansion of Spain´s air force as well as in the construction of a nitrogen factory.[366] Undoubtedly, German help in these projects would have been of some considerable benefit in the reconstruction of Spain. Yet, owing to the outbreak of war in September 1939, very few tangible results were eventually achieved. Besides, these `grand projects´ should not divert attention from recognizing Nazi Germany´s ultimate aim. In harmony with the view expressed by von Jagwitz in the aforementioned memorandum on Germany´s `new´ economic relationship with Spain,[367] it was still intended to turn Spain into an `economic colony´ which would supply Germany with certain raw materials in exchange for manufactured products. For an even easier exploitation of Spain National Socialist planners hoped to target

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[365]BA R7/3412, RWM report on Spain, End of 1938 [author´s translation, C.L.]; see also *Studie des Reichsluftfahrtministeriums*, March 1940, cited by H.- E. Volkmann, "Die NS-Wirtschaft in Vorbereitung des Krieges", in W. Deist *et al.*, *Das Deutsche Reich und der Zweite Weltkrieg I*, Stuttgart:1979, pp.317f.

[366]BA R7/733, Part of Wohlthat´s report on negotiations with Spanish Government, *Übersicht über die Firmen der Hisma-Sofindus-Gruppe*", 21/1/1940.

[367]See Chapter I, p. 54.

German exports in such a way that they would help to increase Spain´s raw material production.[368]

In conclusion, National Socialist plans were inspired by the desire to fit Spain into the National Socialist *Großraumwirtschaft.* To achieve the integration of Spain into Germany´s `Greater Economic Space´ the Nazis rejected a return to normal trading conditions with Spain, preferring a continuation of the special trading situation which had developed during the Spanish Civil War. Indeed, it was anticipated that Spain would play a role similar to states in south eastern Europe, an industrially underdeveloped agricultural country with a substantial reserve of raw materials on offer.[369] A typical example of how the Nazi regime assessed Spain´s natural wealth is contained in a memorandum by the *Reichsstelle für Wirtschaftsausbau.* Compiled just before the outbreak of the Second World War, the study examined the question of how the economies of several European countries might fit into the National Socialist *Großraumwehrwirtschaft.*

Spain takes up a special position. Because of her state of exhaustion she is dependent on foreign aid. This may make her the unsafest partner. Yet, at the same time her wealth of pyrites (56%), iron ore (15.7%), zinc (16%), copper (11%), lead (25%), bismuth (19%) makes her an especially valuable partner. Spain forms a natural addition to south eastern Europe, indispensable for the *Großraumwehrwirtschaft.* With regard to iron ore, lead and bismuth supplies, an expansion of the Spanish economy promises a quicker partial success [*Teilerfolg*] than the economic expansion of Southeastern Europe. Yet, in the case of war, an immediate use of Spain by the coalition [the Axis] presupposes a safe link to Italy and therefore air and sea control of the western Mediterranean. This link seems particularly desirable because bulk transports (iron ore and pyrites) to Italy cannot be undertaken with so little

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[368]There are some striking similarities between Germany´s plans for Spain and the development of her relationship to Hungary in 1938/9 (see H.- E. Volkmann, "Die NS-Wirtschaft in Vorbereitung des Krieges", p.343).

[369]In April 1939, Carl Krauch, plenipotentiary for special problems in the chemical production, treated Spain as equivalent to the Balkan in Germany´s attempt to extend its *Großwirtschaftsraum* (*Arbeitsbericht* by Carl Krauch, 28/4/1939, cited in H.- E. Volkmann, "Die NS-Wirtschaft in Vorbereitung des Krieges", p.339.

Aufwand [money and time] from any other country in the [German] sphere of influence (convoys from Spain and Spanish Morocco to Italy).[370]

On top of the output of Spanish raw material producers, the Nazi regime hoped to be able to draw upon increasing amounts of raw materials from its own sources acquired under the MONTANA project. National Socialist interest in possible supplies of a number of essential raw materials from Spain was supported by the calculations of German experts on existing reserves. For Spain only - without the substantial reserves of Spanish Morocco - iron ore reserves were estimated at about 711 million metric tons (or 349 million metric tons iron content). Pyrite reserves in the Huelva province were thought to be over 200 million metric tons. Attention was also focussed on Spain´s copper, lead and wolfram production.[371] As the penultimate chapter will demonstrate, the latter was to take up centre-stage of the economic warfare between Germany and the Allies in Spain.

There existed therefore a case for the Nazi leadership to dismiss, or at least play down, the problem of any financial cost-benefit analysis. It was undeniable that the Spanish debt was extremely high and that something had to be done about it. Yet, the problem was regarded as less dramatic because of the apparent fact that the economic colonization of Spain was well under way. Indeed, the debt problem could even be used to blackmail Spain into more concessions, should the need arise.

However, as the German government would soon realize, it could not really be complacent about Germany´s future relationship with Franco Spain. Franco and his fellow rebels were, of course, grateful for Germany´s

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[370]BA R25/53, Memorandum *Möglichkeiten einer Großraumwehrwirtschaft unter deutscher Führung*, August 1939 [author´s translation, C.L.]. Figures in brackets indicate percentage total German imports of respective raw material.
[371]BA/MA Wi/IB 2.3 (copy b), Overview over Spain´s economic situation, November 1940.

invaluable help. On the other hand, there was no guarantee for how long this gratitude would last once the civil war was over. Many observers were quick to point out that the Spanish psyche might only accept Germany´s intervention in Spanish affairs up to a certain point, and that many Francoists were already fed up with Germany´s overt attempts to exploit Spain. Clearly many British officials had expressed this opinion during the civil war. It was perfectly summed up by Hodgson, the Britain´s representative in Franco Spain when he advised:

> If there is one lesson that history should have taught them [the Germans], it is that any attempt to coerce Spaniards to do that which they do not want to is foredoomed to failure. If there is one thing which is a fetish to Spain it is her independence.[372]

It was an opinion shared by German ambassador Stohrer who urged the German government in April 1939 not to press the Spaniards too hard for military and economic concessions. His knowledge of `the Spanish character´ told him that, with too much pressure, Germany would only achieve the opposite of what it desired.[373]

There is a widely held opinion amongst historians that the Nazi regime had, in fact, overstepped its mark before the end of the civil war and that, with its successful conclusion, Franco started to assert his position. Glyn Stone argues that it was MONTANA `which alerted Franco to the danger of being drawn too closely into the German economic orbit and led him to give a more sympathetic reception to British requirements than might otherwise have been the case.´[374] Denis Smyth concurs with the view that Britain had been

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[372]PRO FO371/24115/1752, Price of Italian and German intervention in Spain, Report by Sir R. Hodgson, 1/2/1939.
[373]ADAP, D, III, doc.786, pp.766ff., Memorandum by Stohrer, 14/4/1939.
[374]G. Stone, "The European Great Powers", p.206; for a similar view, see also C. Harvey, "Politics and Pyrites", p.103.

preparing to unsettle Germany´s apparently unassailable position. The British government was certain that it could offer Franco better economic and financial deals than Germany. Judging from Britain´s economic strength and Germany´s mistakes, Smyth argues that `within months of the close of the Spanish Civil War on 1 April 1939, it became evident that all the Third Reich´s efforts to obtain a lasting lien on Franco´s loyalty, political or economic, had been in vain.´[375] Smyth, correctly, perceives this partly in the context of the outbreak of the Second World War. At least initially, the war certainly deprived Germany of any chance to hold on to, let alone to extend her economic influence in Spain.[376]

Yet, Smyth has overstated his case for Britain when he emphasizes the usefulness of `Britain´s carefully constructed civil-wartime policy´ as a significant element in the improvement of her economic relationship with Franco Spain.[377] Based on her extensive research on the British government and the Spanish Civil War, Jill Edwards paints a much gloomier picture about Britain´s position at the end of the civil war than Smyth. She argues that only then did the British government realize its disadvantageous and Germany´s advantageous position.[378] In view of the reactions of the British government to the problems it faced in Franco Spain in late 1936 and 1937,[379] its fairly hand-to-mouth `wait-till-the-end-of-war´ attitude should not be confused with a `carefully constructed´ policy. When Smyth argues that Britain avoided `seriously injuring the exaggerated nationalist sentiments and pretensions of the Francoists during the Civil War´ and thus left `the way open for a genuine

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[375]D. Smyth, "The Moor and the Money-lender", in M.-L. Recker, *Von der Konkurrenz zur Rivalität*, Stuttgart:1986, p.161.
[376]The impact of the outbreak of war on German-Spanish economic relations will be discussed in more detail at a later point in this chapter.
[377]D.Smyth, Diplomacy and the Strategy of Survival,p.25.
[378]J.Edwards, The British Government and the Spanish Civil War, p.212.
[379]See Chapter II.

rapprochement in its aftermath', he implies far too much planning behind what appeared to be Britain's basic inactivity.[380]

Nonetheless, Smyth is certainly right in arguing that, after the end of the civil war, Britain - as well as France - tried to use her economic and financial power to unsettle Germany's apparently strong economic position in Spain. The British government, as well as individual British companies in Spain, reacted almost immediately to the removal of Franco's military dependence on Germany. The reaction of Rio Tinto serves as a good example. While Germany had received monthly supplies averaging at about 35,000 metric tons of pyrites in the final stages of the civil war, Rio Tinto declined to supply anything at all in May and June 1939. In fact, despite German pressure on the Spanish government, Rio Tinto continued its refusal in July.[381]

It was in order to secure further Germany's economic influence in Spain and to counteract British influence that a substantial reorganization of the HISMA/ROWAK network of companies took place late in 1938. Bernhardt and Bethke were engaged in this restructuring process, at the same time as the German embassy was endeavouring to bring about a positive outcome to its negotiations with the Franco administration over MONTANA. In September 1938 as part of the restructuring the Sociedade Financeira Industrial Ltda, or SOFINDUS, was founded in Lisbon. Initially, the new organization was put in charge of the company empire founded by HISMA in Spain. One month later, ROWAK increased its ordinary share capital by RM 10 million to RM 10,100,000 using *Sparpeseten*[382] and a portion of the Nationalist payments for German war *matériel*. With permission of the Reich Finance Ministry,

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[380]D. Smyth, "The Moor and the Money-lender", p.169.
[381]FCO/AA 2938 volume 2, Letter, RWM to Sabath, 14/7/1939; FCO/AA 336/196999, Telegram, Stille to German Foreign Ministry, 31/7/1939.
[382]See below,p. 128.

ROWAK then employed its share capital to acquire the Portuguese SOFINDUS and with it the Spanish companies under SOFINDUS´ control. While the companies were thus transferred into the ownership of ROWAK, their administration was eventually shifted to the second SOFINDUS, Sociedad Financiera e Industrial SA. Directly controlled by ROWAK, this Spanish SOFINDUS was officially entered into a Spanish commercial register on 13 November 1938. At the same time HISMA´s tasks were being scaled down to prepare for the eventual liquidation of the company. After 18 October 1938 HISMA continued to remain in charge of the Spanish end of the trading and clearing system established between Franco Spain and Germany, yet it was completely removed from any involvement in ROWAK´s economic investment in Spain. As a further change, Bernhardt´s 50 per cent stake in HISMA was taken over by ROWAK.[383]

After ROWAK had invested pesetas of an exchange value of RM 25 million,[384] the Spanish SOFINDUS became the new holding company for all Reich properties, companies and mines in Nationalist Spain.[385]

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[383]BA R7/738, Unsigned memorandum *Entstehung*, 15/3/1940; BA R121/840, Memorandum by director of RWM Department V, Export, 18/10/1938.
[384]BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940.
[385]BA R2/22, Memorandum by Berger (RFM), 8/10/1938; BA R121/838, undated report on foundation and development of SOFINDUS; BA R121/840, Memorandum for the director of Dep. V of the *RWM*, 18/10/1938. See table 17.

Table 17: SOFINDUS-SUBSIDIARIES IN SPAIN

COMPANY	FIELD OF WORK	OFFICIALLY FOUNDED
Comp. General de Lanas S.A. (Lanas)	Export of wool	1/1/1938
Soc. Exportadora de Pieles S.A. (Pieles)	Export of skins and hides	31/12/1937
Productos Agricolas S.A. (Prodag)	Export of agricultural products	1/1/1938
Scholtz Hermanos S.A. (Scholtz)	Production and Export of wine	1/6/1938
Minerales de España S.A. (Minerales)	Ore trade and shipping	1/1/1938
Corchos zum Hingste (Hingste)	Production and export of cork products	24/2/1937
Hermann Gärtner S.A. de Productos Resinosos (Gärtner)	Export of resins and oil of turpentine	13/8/1938
Transportes Marion S.A. (Marion)	Transport company	1/7/1938
Agro S.A. (Agro)	Company engaged in agricultural studies and projects	1/10/1937
Nova S.A. (Nova)	Company engaged in technical studies	1/8/1937
Montes de Galicia Cia, Explotadora de Minas S.A. (Montegal)	Development of mines and mining	20/10/1938
Soc. Anom. des Estudios y Explotaciones Mineras Santa Tecla (Santecla)	as above	4/10/1938
Cia de Explotaciones Mineras Aralar S.A. (Aralar)	as above	15/9/1938
Cia Minera Montanas del Sur S.A. (Montasur)	as above	27/9/1938
S.A. Minera Nertobriga (Nertobriga)	as above	Autumn 1938
Cia Minera Mauretania S.A. (Mauretania)	as above	30/1/1939
Cia de Minas Sierra de Gredos S.A. (Sigredos)	as above	22/9/1938
Montana S.A. de Estudios y Fomento Minero (Montana S.A.)	Exploration and development of mines	20/9/1938

Source: BA R121/841, Audits by *Deutsche Revisions- und Treuhand AG*, 1938/39; BA R121/850, Undated report on Aralar; BA R121/851, Undated report on Sierra de Gredos; BA R121/843, Undated report on Montañas del Sur; BA R121/805, Report on Montes de Galicia, Santa Tecla and Mauretania, and audit of Montana, 31/12/1939.

Obvious links between the new organization and HISMA were indisputable. In fact, it could be safely argued that in SOFINDUS ex-employees of HISMA largely continued with the same activities under a different company name. Many employees of HISMA were simply transferred to SOFINDUS. As the first managing director of SOFINDUS, Bernhardt took on an influential role which resembled his involvement in HISMA.[386] Yet, despite similar activities by the employees the legal situation of the two companies was distinctly different. Whereas HISMA was partly owned and controlled by the Franco administration[387], SOFINDUS was subordinated to ROWAK´s direction and received all its funds from Germany.[388] This link between SOFINDUS and ROWAK was underlined by the position of Friedrich Bethke in both organizations. Already managing director of ROWAK, and *Sonderreferent* in Department V of the RWM, he took on another important task as chairman of the board of directors of SOFINDUS. In truth, he became the most influential leading member of the new ROWAK/SOFINDUS organization and, alongside Bernhardt, undoubtedly the German official best informed about the tasks and activities of the two organizations.[389] Using his excellent inside knowledge he summed up SOFINDUS´ area of responsibility in a statement given to the Allies after the Second World War:

> The "Sociedad Financiera e Industrial SA - SOFINDUS" was a sort of administrative centre and financing company for our Spanish subsidiaries. We passed our orders to these subsidiaries through SOFINDUS, in order to avoid having to deal with a large number of companies individually. It thus performed certain general management functions. It also financed the deficits or credit requirements of one company with the surpluses or profits of another, acting as a credit pooling arrangement to avoid having to pay interest to the

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[386]On 22/3/1939 Bernhardt became the first managing director of SOFINDUS (BA R121/840, Work contracts for individual employees of SOFINDUS, 12/12/1939).

[387]By the end of the civil war 50 per cent of HISMA were owned by Franco-Spain through Admiral Carranza, the other 50 per cent being in possession of ROWAK (BA R7/738, unsigned memorandum *Entstehung*, 15/3/1940).

[388]In March 1941, SOFINDUS concluded a trust contract with ROWAK which transferred the majority of its shares to ROWAK (BA R121/840, Trust contract between SOFINDUS and ROWAK, 31/3/1941).

[389]BA R121/844, Correspondence of the board of directors of SOFINDUS, April 1940.

Spanish banks. It did not own companies, however. The actual shares were deposited in the German Embassy in Madrid for ROWAK. SOFINDUS held proxy rights for these shares.[390]

Within a short period of time SOFINDUS´ size had overtaken HISMA to such an extent that by the end of 1938 SOFINDUS counted 530 employees in contrast to HISMA´s remaining 219.[391] The importance of SOFINDUS´ administrative tasks was acknowledged by the German government. It was appreciated that the organization required adequate funds and it therefore received a RM 9,700,000 credit from the Reich Finance Ministry in February 1939.[392]

Evidently, the foundation of SOFINDUS constituted a central element of National Socialist preparations for the post-civil war period. These preparations were assisted by other developments. An interesting, though less important, element concerned the accumulation of the so-called *Sparpeseten* or Savings Pesetas. All Germany military personnel sent to Spain as part of *Winterübung Hansa* received their pay plus special monthly expense allowances. These allowances could range from anything between RM 600 for troops and RM 2,400 for generals.[393] While 50 per cent of these allowances were remitted in Germany, the Nationalist administration agreed in 1937 to settle the other half in pesetas . Yet, these peseta payments were not handed over to the soldiers directly, but paid into special HISMA accounts. In fact, the German troops, as rightful recipients, never saw any of these Pesetas. As mentioned previously part of the money was made available to ROWAK which used it to increase its ordinary share capital.[394] However, by the end of February 1939 the *Sparpeseten* accounts in Spain were still Pts

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[390]BA R121/1237, Statement by Bethke to the Allies, 18/8/1945.
[391]BA R121/841, Audit of HISMA/ROWAK/SOFINDUS, 31/12/1938.
[392]BA R121/840, Memorandum about a meeting between Bethke and Bernhardt, 13/2/1939.
[393]R. Absolon, *Die Wehrmacht im Dritten Reich IV*, Boppard:1979, p.260.
[394]BA R2/22, Letter, RFM to RWM, 23/11/1938.

87,200,000 in credit increasing to Pts 93,852,362 by late September 1939.[395] Finally, plans were drawn up for the use of the money. As usual Bernhardt was quick to react to such an opportunity. In late 1938 he suggested that these reserves should be invested in Spain to purchase property, small power stations, vegetable oil mills and agricultural products. Bethke, however, was concerned about the possible reaction of the Franco regime to the use of *Sparpeseten* for such overt economic purposes and rejected Bernhardt´s suggestion. He pointed out that the Franco administration would only - and only reluctantly - permit the use of its debt repayments for purchases and investvements in Spain. Yet, inspite of the rejection of Bernhardt´s plans, Bethke apparently agreed to a suggestion by the Reich Finance Ministry to enquire whether the purchase of dispensable raw materials and agricultural products would be permissible. Furthermore, the Reich Finance Ministry decided to leave Bernhardt and the German embassy in charge of the *Sparpeseten* accounts in Spain.[396]

Undoubtedly, the supply of raw materials continued to be at the heart of National Socialist intentions to maintain Germany´s special economic relationship with Franco. In view of the financial strength of Germany´s economic competitors, the Nazis desired to secure Germany an important role in the reconstruction of Spain. After the recognition of the Franco regime by France and Britain this became an even more pressing objective as businessmen from both countries and the USA immediately offered Franco Spain goods on credit.[397] Indeed, the pressure of increased competition from Britain and renewed competition from France constituted a particular danger

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[395]BA R2/23, Report on expenditure on Spain by 31/3/1939, by Sonderstab W, 4/4/1939; FCO/AA 3868/045820, Telegram, Stohrer to German Foreign Ministry, 25/9/1939.
[396]BA R2/23, Extract from the protocoll on the second meeting of the advisory committee of ROWAK, 2/12/1938; *ibid.*, Letter, Nasse (RFM) to Mayer (RFM), 24/1/1939.
[397]ADAP, D, III, doc.707, pp.690f., Memorandum by Schwendemann, 29/12/1938; *ibid.*, doc.710, p.693, Memorandum by Wiehl, 10/1/1939; *ibid.*, doc.757, pp.739ff., Letter, Stohrer to German Foreign Ministry, 15/3/1939.

in the area of ore deliveries. Understandably worried, the Nazis were extremely keen on securing long-term deliveries of Spanish ore, in particular iron ore and pyrites - even before the end of the civil war.[398]

The Nationalist conquest of Catalonia had made it a matter of some urgency to arrange for negotiations over the future economic relationship between the two states. In other non-economic areas important decisions had already been taken. On 24 January 1939 both sides had signed a cultural treaty which was , however, never ratified by Franco Spain. Negotiations over a Spanish entry into the Anti-Comintern Pact were under way, to be finally and successfully concluded on 27 March 1939. Yet, by the time the Republic had finally been defeated no orderly economic negotiations had taken place. Preliminary talks had been initiated by Stohrer and Franco´s Minister for Industry and Commerce, Juan Antonio Suanzes Fernández, in March. Both participants agreed on the need for such negotiations. Suanzes also clearly defined and separated three areas of importance: the debt question, the future of Spanish-German trade, and Germany´s role in the reconstruction of Spain. He asked for the dispatch of a German delegation to discuss these issues, a request in line with Stohrer´s and the Foreign Ministry´s own considerations. Both men were also very much in agreement over the future of HISMA which they wanted to see disappear.[399] Stohrer and Suanzes concurred that HISMA had developed during - and because of - exceptional circumstances which were about to disappear. Thanks to the imminent end of the civil war, trade and clearing relations between the `new´ Spain and Germany could be normalized and that would leave no need for HISMA´s further existence.

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[398]ADAP, D, III, doc. 707, pp.690f., Memorandum by Schwendemann, 29/12/1938; *ibid.*, doc.710, p.693, Memorandum by Wiehl, 10/1/1939.
[399]ADAP, D, III, doc. 754, pp.736f., Letter, Stohrer to Wiehl, 11/3/1939; *ibid.*, doc.757, pp739ff., Letter, Stohrer to German Foreign Ministry, 15/3/1939; see also *ibid.*, Memorandum by Wiehl, 23/3/1939.

However, by the beginning of April these informal talks between Stohrer and Suanzes had not yet led to any negotiations, let alone economic agreements.

In very general terms, the desire for economic cooperation was mentioned in the Treaty of Friendship signed by both sides on 31 March 1939, but exact details were left to future agreements.[400] Immediately after the end of the civil war, however, the German government followed up Suanzes´ suggestion and arranged for a delegation to be sent to Spain. It was led by Helmuth Wohlthat, a permanent secretary in the Four-Year-Plan-Office. He was accompanied by Sabath, representing the Foreign Ministry, Bethke for the RWM and Koenning as the representative of the Reich Finance Ministry. While the delegation originally intended to leave Germany in April, it finally arrived in Spain at the beginning of June. There, its task not only involved negotiations with the Spanish government, but also an inspection of HISMA, and SOFINDUS and its subsidiaries. The delegation met several members of the Spanish government including General Jordana, the Spanish Minister for Foreign Affairs, Andrés Amado, the Finance Minister, Raimundo Fernández Cuesta, the Minister for Agriculture and Suanzes. Apart from generalities on the desire for future cooperation and gratitude for Germany´s help, the common Spanish line was to request a normalisation of the trading and clearing system, that is an abolition of the HISMA/ROWAK system. The German delegation also handed over a report on planned investments confident that such plans would be approved. Yet, Suanzes spoke out against German attempts to invest Spanish debt repayments in Spain. Apparently, no agreement could be found on this matter. Further important negotiations by a Spanish-German subcommittee were undertaken on the question of the Spanish debt. As a result, the Spanish government promised to pay

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[400]ADAP, D, III, doc.773, pp.752ff., Article 9 of German-Spanish Treaty of Friendship, 31/3/1939.

outstanding bills with the reservation that it would have to acknowledge them first. However, no final decision on total amount, interest rates and on the payment method were taken. A further point in the negotiations concerned the future trading relationship between the two countries. The German delegation presented a list of goods it wanted to import from Spain annually. While the total value of this list amounted to RM 250 million, RM 129.3 million of this amount covered goods urgently desired by Germany. The application of the remainder was left to Spain´s discretion. The Spanish government responded by offering total exports amounting to RM 216.8 million of which only RM 66.8 million corresponded to goods of special interest to Germany. RM 70 million, however, were allocated to the export of oranges. Wohlthat showed some satisfaction with the overall amount, but hoped for an improvement in the amount of the especially interesting goods. The negotiations ended with the mutual understanding that further negotiations were required. The German-Spanish subcommittee on the debt question continued its negotiations, and further more detailed economic negotiations were planned for the near future.[401]

Yet, despite the few tangible results, one outcome of the negotiations led to a change in the clearing system. In line with earlier discussions between Stohrer and Suanzes, HISMA´s role was reduced further by transferring its control over the Spanish end of the German-Spanish clearing system to the new *Instituto Español de Moneda Extranjera* (IEME). ROWAK, on the other hand, remained in charge of the German side.[402] HISMA´s extraordinary role was clearly drawing to an end. Already deprived of its

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[401]ADAP, D, III, doc.809, pp.785ff., undated Memorandum by Wohlthat on the negotiations with the Spanish government from 12 June to 5 July 1939; BA R121/1237, Enclosure III to a report by ROWAK on the Spanish civil war debt, 21/9/1956.
[402]BA R121/3647, Overview over Germany´s clearing and exchange agreements, January 1940; BA R121/1237, Statement by Bethke to the Allies, 18/8/1945; BE DE-IEME.*Secretaría Caja* 67.

control over the German raw material purchasing and producing companies in Spain, it had now also been stripped of its role in the German-Spanish clearing system. The company was destined for liquidation. Even so, it took another year before the final decision to close down HISMA was taken. In the meantime, HISMA continued to exert some influence over the trade between Germany and Spain by issuing limited amounts of trade permits. After the outbreak of war in September, the Allies put HISMA on the black list of enemy companies. The Spanish government therefore came to regard HISMA´s existence as a burden to Spain´s neutrality and repeated the request for its closure. Yet, despite these requests HISMA continued to function. In fact, it quickly became involved in German attempts to export Spanish goods via neutral countries. Finally, on 20 November 1940, Bernhardt had a conversation with the Spanish Minister for Finances, Larraz, in which both sides agreed that HISMA was to be closed on 31 December 1940. The official closing notification, however, did not appear before 7 March 1941. The liquidation certificate was signed at the Spanish consulate in Tetuán and was backdated to 31 December 1940.[403]

While German and Spanish government officials held meetings on important economic questions in summer 1939, economic negotiations were not totally confined to inter-governmental discussions. ROWAK, already represented in the Wohlthat delegation by its director Bethke, continued to engage itself in the conclusion of business deals in Spain. In July 1939, a major subsidiary of SOFINDUS, Minerales de España, helped to conclude a contract between the Hermann Göring Werke and the mining company

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[403]FCO/AA 336/197026f., Telegram, Stohrer to German Foreign Ministry, 19/10/1939; BA R121/832, Letter, Bernhardt to Jagwitz, 23/11/1940; BA R7/733, Part of Wohlthat´s report on negotiations with Spanish Government, *Übersicht über die Firmen der Hisma-Sofindus-Gruppe*", 21/1/1940; BA R121/842, Closing notification, 7/3/1941; A. Viñas, *Política Comercial Exterior*, p.389.

Compañía Minerva de Sierra Minera, reputedly the biggest private iron ore mining concern in Spain. The contract was to secure the Hermann Göring Werke an annual supply of 5-700,000 metric tons of iron ore over five years at a price of between RM 6 and 7 per ton of ore, though supplies were not anticipated before July 1940. For its part, Minerales de España was to be rewarded with a commission of RM 0.125 per ton. The company would also make available a Pts 6 million credit, taken from the *Sparpeseten* accounts, to rebuild the railway line to the mine. As a whole, the deal was a good example of Germany´s attempt to mould Spain into a specific economic framework. As the mine had closed down in 1932, its new contract would obviously create new business and new jobs. These new jobs would help to supply Germany, and more specifically the state steel works founded by the Four-Year-Plan-Office, with raw materials.[404]

Time was of the essence as Germany found itself in renewed competition with Britain which was directing its efforts towards an economic *rapprochement* with Franco Spain. At the end of March 1939 Sir Maurice Peterson had arrived in Irún to take up his post as first British ambassador in Franco Spain.[405] A normalization of relations with Franco Spain was on the cards. Yet, in common with discussions during the civil war, the British government was not united in its views on how to deal with Franco Spain. The question of a possible loan to Franco provided the main reason for debate. Some officials such as Sir Robert Vansittart, the Chief Diplomatic Adviser, and the British ambassador in France, Sir Eric Phipps, were opposed to any loan to Spain because of Franco´s political unreliability. Phipps argued that Spain would have to give `full satisfactory guarantees that they had not thrown, and did not intend in future to throw, themselves in the arms of Hitler

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[404]BA R2/24, Letter, Berger to Mayer (RFM), 19/10/1939.
[405]M. Peterson, Both sides of the curtain, an Autobiography, London:1950, p.214.

and Mussolini.´[406] Yet, those in favour of a loan used the same argument - Franco´s relationship with the Axis powers - to reason in favour of a loan. It was hoped that the projected loan would pull Franco towards Britain and away from the Axis which was not able to compete with Britain´s financial strength. A loan would be an essential tool to show Franco Britain´s goodwill. This might then make him more susceptible to listen to Britain, and move away from the Axis.[407]

Thus, opposing sides in the British government emphasized the political nature of the decision on whether to make a loan available or not. In addition, the basic underlying problem of the economic usefulness of Spain for both Britain and Germany was brought into the debate. Two questions had to be examined. How important was Spain for Britain´s rearmament? Secondly, was it worthwhile to attempt limiting Germany´s access to Spanish products? For both countries, Spain had mainly been a source of foodstuffs, but a limited number of raw materials was also of some importance to Britain. The debate again returned to pyrites and iron ore, but first and foremost to Spanish mercury. The Spanish Republic had continued to export the latter to Britain until the autumn of 1938 and the British government was extremely worried about future supplies.

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[406]PRO FO371/24132/6282, Letter,Sir E. Phipps to FO on projected loan to General Franco, 18/4/1939; PRO FO371/24144/9721, FO note, 24/6/1939; see also A. Viñas, *Política Comercial Exterior*, p.287f.

[407]For this line of argument see PRO FO371/24144/5809, Letter, Brigadier General Sir Henry Page Croft to FO, 4/4/1939, Reply by R.A. Butler, 18/4/1939; PRO FO371/24144/9574, Comment by Farquhar on letter from D. Eccles to Sir G. Mounsey, 16/6/1939.

Table 18: IMPORTS OF SPANISH MERCURY INTO BRITAIN, 1935-SEPTEMBER 1938

Year	Quantity (in lbs)	Value (in £)
1935	1,419,000	209,000
1936	1,404,000	222,000
1937	2,599,000	419,000
January - September		
1937	2,363,000	382,000
1938	2,236,000	327,000

Source: J. Edwards, The British Government and the Spanish Civil War, p.97.

The only other European source of mercury was Italy which, in the event of war, could not be regarded as reliable.[408] Although Spain was a useful source of iron pyrites and iron ore, in contrast to mercury, government officials believed that Britain could find sufficient supplies elsewhere, even considering the quality of Spanish pyrites.[409]

Nonetheless, Spanish iron ore and pyrites played a central role in the discussion because of their significance to Germany. Shortly before the outbreak of war, the Board of Trade concluded on German imports that the months after the end of the civil war had not shown any `very striking increases in purchases from Spain in individual commodities.´[410] However, this *per se* encouraging conclusion was based on official German figures which did not usually take all of ROWAK´s importing activities into account. In fact, other developments were not so reassuring. Despite its courageous stance after the end of the civil war,[411] Rio Tinto was still in trouble. The

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[408]Spain and Italy accounted for nearly 80 per cent of the world´s supply of mercury. According to the MEW, the next largest producer was the USA. However, it consumed all its production and had to import large quantities on top of that (PRO FO837/109, Commodities Priority Committee, Sub-Committee on Non-Ferrous Metals, April (?) 1940.

[409]PRO FO371/24144/9969, FO Memorandum, 29/6/1939. See Chapter 2 for tables on pyrite and iron ore supplies and respective figures.

[410]PRO BT11/1080, Weekly report of Commercial Relations and Treaties Dept., August 1939.

[411]See p. 124.

Spanish authorities informed the company that as from 1 May all exports to countries other than Germany and Italy had to be stopped. The main reason given was that the Axis powers offered higher payments for pyrites than other importers did. Although Rio Tinto refused to export pyrites to Germany, one reaction in the Foreign Office to this news amounted to admitting that Britain was in a desperate position. This could only worsen if Germany´s economic negotiations with Spain worked out well.[412] News from Spanish Morocco underlined such worries. In early August the British consul in Tetuán reported that Germany was about to monopolize all trade with Spanish Morocco. Spanish importers were apparently told to switch their enquiries to German companies while trade with the United Kingdom had been reduced to a minimum.[413]

Yet, and despite this depressing report from Spanish Morocco, the British government had already become more confident about its future economic relationship with Spain. Reports on the outcome of Germany´s negotiations with the Spanish government seemed to agree that they had not ended the way Germany would have liked them to.[414] Furthermore, should the increasing likelihood of a European war become reality, the British government anticipated an automatic reduction of Germany´s trade with Spain. Germany would, for instance, only be able to receive minimal amounts of ore from Spain.[415]

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[412]PRO FO371/24144/9476, Comment by Roberts on a report by Sir M. Peterson on Spain´s economic and political policy, 16/6/1939. As we have seen on page 124, Rio Tinto, at the time, refused to supply Germany with pyrites.
[413]PRO FO371/24145/12086, Report by Consul Montgomery on economic situation in Spanish Morocco, 8/8/1939.
[414]See, for example, PRO FO371/24161/10400, Comment by Williams on a letter from Sir G. Ogilvie-Forbes, 7/7/1939.
[415]PRO FO371/23049/17724, MEW Report, 3/11/1939

From a Spanish point of view, these brief months of peace between the end of the Spanish Civil War and the outbreak of the Second World War in September demonstrated that the country was economically dependent on both sides in a future conflict. While Spain could offer some valuable goods to Germany and Britain, she was was far less important to Britain or Germany than Germany and Britain were to Spain. Ideologically bound to the Axis, the Franco regime could not deny the economic and financial importance of the western liberal democracies for its future well-being. Germany´s own supply situation made it impossible for her to provide Spain with anything like sufficient stocks of oil, grain and cotton, three products crucial to the running of Spain´s economy and to the feeding of its starving population. Apart from a variety of manufactured goods, Germany was able to offer war *materiél* on which the Spanish generals were particularly keen. Britain, on the other hand, could - with the help of the USA - arrange for the supply of essential raw materials, oil, grain and cotton. Furthermore, Britain was also better equipped to help Spain with her desperate shortage of maritime vessels. The Spanish government was therefore bound to approach both sides for help.

The outbreak of the Second World War altered the general economic situation for Spain considerably. Spain´s negotiations with Germany and Britain took on a new perspective. First and foremost, Spain found itself cut off from Germany, at least as far as transport on land was concerned. As expected by the British government, Britain was suddenly propelled into a far more powerful position due to her fairly tight control of the seas, her use of economic blockade measures and Spain´s shortage of shipping.[416] With Germany even less inclined - and able - to fulfil Spanish needs in areas such as oil and grain supplies, Spain became an even softer target for British

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[416]PRO FO371/24496/125, Letter, Fraser (BoT) to FO, 2/1/1940; PRO FO371/24496/146, Letter, MEW to Makins (FO), 3/1/1940; PRO FO371/24496/645, Comment by Williams on letter by David Eccles, 10/1/1940; PRO BT11/1147, Report on Spain, October 1939.

pressure. In fact, the problem of supplies would remain a central issue of Spain´s economic negotiations with the Allies and the Axis for the next five years. In the early autumn of 1939 the Spanish government intensified its negotiations with Britain while economic negotiations with Germany briefly stopped.[417]

According to German sources, negotiations were finally recommenced in November 1939 on the urgent request of the Spanish government. The initial impression the German government gained was of a courageous Spain. While the country was hit by the loss of Germany as a possible supplier of urgently required goods, it apparently held out valiantly against British pressure. Wohlthat, again head of the German delegation in the new round of negotiations, concluded in January 1940 that `the Spanish government had energetically resisted British and French demands and that it preferred to survive the winter by struggling along on the breadline.´ Although it appeared to the German delegation that Franco was not going to take any loans from Britain, the Spanish Finance Minister José Larraz Lopéz argued that he had to keep this option open owing to the desperate nature of the state´s finances. During the negotiations the Spanish government again expressed its interest in German goods, though the transport situation made it difficult to receive any. The suggestion came up that transports of goods via Italy might be arranged.[418] In his report on the negotiations Wohlthat acknowledged the economic problems Spain faced. Obviously, he argued, these were mainly created by the civil war, but he also attached some blame to the Allied economic blockade. Despite the critical situation, Wohlthat did not expect any major political changes. Franco was clearly in control of the regime and `a

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[417]BA R121/1237, Enclosure III to a report by ROWAK on the Spanish civil war debt, 21/9/1956.

[418]Not only Larraz but also Alarcón de Lastra, Minister for industry and commerce, suggested a continuation of trade with Germany via Italy (A. Viñas, *Política Comercial Exterior*, p.325, footnote 103).

stabilization of his government was in the interest of German-Spanish economic cooperation.´ On the last point a protocol was signed by both sides during the course of the negotiations to underline the common wish to work together. The main outcome of the negotiations, however, was an agreement to create a *modus vivendi* for the trading and clearing system between the two countries for the duration of the war. It was signed on 22 December 1939 and contained the mutual promise to achieve an equilibrium in the bilateral trading balance. A German-Spanish commission was formed to prepare for and then organize a new trading and payment system. It was also agreed that ROWAK would continue as Germany´s compensation centre.[419] No immediate progress, however, was made towards solving the debt problem.[420] Wohlthat informed the Spanish delegation that the German government would accept part- payments in pesetas in Spain. He went on to indicate the use Germany would make of such payments on Spain´s civil war debt.

> The Spanish government will allow free use of these [peseta] amounts in Spain. The German government intends to invest such peseta amounts, for example in the purchase of Spanish products, such as minerals, etc. These will then be stored in Spain until it becomes possible to ship them out. Peseta receipts will also be used to acquire properties for the [German] embassy, to undertake payments of any kind in Spain, etc.[421]

Undoubtedly, a positive response to this suggestion would have led to a continuation of Germany´s civil war policy of buying up Spanish interests, particularly Spanish mines. Yet, while the Nazi regime had held all the cards during the civil war and was able to force the Franco administration to accept

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[419]ROWAK also continued to charge commission fees to German importers (1 per cent of value of imported Spanish goods) and exporters (1.5 per cent of value of exported goods) (BA/MA RW45/13 (a.), Report by Lieutnant Colonel Drews, liasion officer to the Reichsbank, 21/2/1940).

[420]BA R7/733, Report by Wohlthat on negotiations with the Spanish government from 2 November to 22 December 1939, 22/1/1940 [author´s translation, C.L.]; BA/MA RW45/13a, Excerpt from the report by Wohlthat on negotiations with the Spanish government, 19/1/1940; BA R121/1237, Enclosure III to a report by ROWAK on the Spanish civil war debt, 21/9/1956; A. Viñas, *Política Comercial Exterior*, pp.341ff.

[421]A. Viñas, *Política Comercial Exterior*, p.343, cited from MAE R2065/E10 [author´s translation, C.L.].

MONTANA, the tables had turned somewhat. With the help of Germany, Franco had rid himself of the pressures of war while Germany herself was now faced with a war situation. The Franco regime acted with logical consistency when it refused Wohlthat´s proposal. As Viñas has pointed out, the regime thus `closed one of the channels which had financed [Germany´s] economic penetration of Spain during the civil war.´[422]

The visit of the German delegation to Spain coincided with the arrival of an official British delegation in Madrid.[423] In clear competition to the German delegation, its task was also to negotiate an economic agreement with Franco. Several issues were of particular concern to the British and Spanish negotiating parties. The Spanish government found itself in a difficult position as it was short of oil, yet it also needed dollars to buy essential supplies in the United States.[424] It was therefore keen on securing a British loan as well as British help in its negotiations with the US authorities. Another area of concern for the Spaniards was the country´s difficult grain supply situation. Having been self-sufficient before the civil war, it now faced serious shortages. By June 1940 Spain´s wheat consumption was down to an annual figure of around 1,800,000 tons, half her pre-civil war consumption.[425] To increase her own production, Spain desperately needed sufficient supplies of ammonium sulphate to be used as fertilizers.[426] Even more important, the Spanish government expressed its need for capital and ships to import wheat from overseas. The British delegation accepted that Spain desperately required

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[422]A. Viñas, *Política Comercial Exterior*, p.344 [author´s translation, C.L.].
[423]The delegation arrived on 10 November 1939. Its members included Edward Playfair from the Treasury, Ralph Nowell from the Board of Trade and David Eccles from the MEW. Playfair was later replaced by Hugh Ellis-Rees. The Anglo-Spanish delegations met for the first time in the Spanish Ministry for Foreign Affairs on 15 November (David Eccles, By Safe Hand. Letters of Sybil & David Eccles 1939-1942, London:1983, p.19; PRO BT11/1137, Report by Commercial Relations and Treaties Dept., November 1940).
[424]PRO FO837/714, MEW report on Spanish oil situation, 12/1/1940.
[425]PRO FO837/718, Report by British military attaché in Madrid, 19/6/1940.
[426]PRO FO371/24496/77, Letter, Mr. Harris (BoT) to FO, 30/12/1939.

ammonium sulphate, but made supplies dependent on satisfactory levels of deliveries of Spanish pyrites.[427] A central British demand, and a crucial element in the negotiations, concerned the prevention of the re-export and transit of Allied goods from Spain to Germany. Despite some reluctance, this part of the so-called War Trade Agreement was finally signed by the Spanish government on 26 March 1940, eight days after the British delegation had achieved the conclusion of a commercial agreement between Britain and Spain.[428] The War Trade Agreement covered the following three areas:

> 1. A trade and payments agreement which provided for the establishment of a clearing system to secure the repayment of accumulated debts due to the United Kingdom and simultaneously, to finance current trade with the sterling area; 2. a loan agreement under which Spain secured a sum of £2 millions for expenditure in the sterling area; 3. an agreement to pass to Spain through Allied controls certain goods which could not be re-exported except with Allied approval.[429]

Thus, at least on paper, the British delegation achieved more success from its negotiations with the Franco administration than the German delegation. On top of this apparent British success, the French government had also managed to sign a commercial treaty with Spain. The treaty proved Germany´s worst fears, that is a *rapprochement* between Spain and France, particularly in the raw material field, to be well-founded. The two sides agreed that, over the coming year, Spain would supply France with 431,000 metric tons of pyrites, 672 metric tons of mercury, 400,000 metric tons of iron ore, 7,000 to 10,000 metric tons of lead, 21,000 metric tons of zinc blende and 200

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[427]PRO FO371/24496/246, Letter, MEW to Makins, 4/1/1940.
[428]PRO FO371/24496/4106, Letter, Sir. M. Peterson to FO, 18/3/1940; PRO FO371/24496/4529, Anglo-Spanish War Trade Agreement, 26/3/1940; W. N. Medlicott, The Economic Blockade I, London:1952, p.510.
[429]W. N. Medlicott, The Economic Blockade I, p.510.
Germany soon realized that the transit prohibition not only affected Allied goods, but also Germany´s trade with Portugal. It protested strongly about such a restriction, and the Spanish Government gave in largely and agreed to secret transports across Spain. German war *materiél* for Portugal, for example, was officially registered as machinery by Spanish customs officials (BA/Pots 09.01/61167, Memorandum by Vogel (AA), 15/12/1941; BA/Pots 94,Sammlung II. Weltkrieg/1159/472588f., Telegram, Heberlein (German Embassy in Madrid) to German Foreign Ministry, 23/1/1942).

metric tons of wolfram.[430] In exchange for these economic assurances, France was to export to Spain urgently required amounts of wheat as well as rice and phosphates.[431] Faced with these agreements the Nazi regime found itself in a weak position. Being deprived of all direct land communications with Spain, it could not react adequately. As long as Germany could only supply - and receive - very limited amounts, Franco was able to use the argument of economic necessity to defend his government´s economic policy against German protests.

Yet, France and Britain had also reasons to remain sceptical. As Britain should have known from past experience,[432] agreements with Franco´s administration were not really reliable. Despite the £2 million loan, the Spanish government was slow in buying British goods. The Spaniards argued that this was due to a lack of shipping or, indeed, that Britain could not supply what Spain required.[433] Only a month after the commercial agreement had been signed , the Spanish government even tried to blackmail Britain. It threatened that it would refuse to export pyrites and iron ore to Britain unless the latter sent sufficient supplies of ammonium sulphate.[434] Eventually, however, this particular difficulty seemed to have been overcome.[435] Yet, more problems developed. Particularly strong suspicions were voiced with regard to Spain´s attitude towards the War Trade Agreement. The focus of Allied concerns was clearly on oil and would remain so until mid-1944. In the first instance, Britain was concerned about the possibility of Spanish

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[430]The treaty was signed on 22/1/1940 (K.-J. Ruhl, "Lálliance á distance", p.85; FCO/AA 136/74022f., Telegram, Stohrer to German Foreign Ministry, 22/1/1940).
[431]FCO/AA 136/74030f., Telegram, Stohrer to German Foreign Ministry, 24/1/1940.
[432]See the outcome of Britain´s economic negotiations with Franco in late 1936 and 1937, pp. 81ff.
[433]PRO FO371/24501/7314, Memorandum by Malcolm Thomson, British Embassy Madrid, June 1940.
[434]PRO FO371/24500/5399, FO minute, 10/4/1940.
[435]PRO FO371/24501/7098, Meeting at Department of Trade, Statement by R.M. Nowell, 5/6/1940.

assistance in the refuelling of German submarines, in mid-Atlantic as well as in Spanish harbours.[436] The available evidence does indeed suggest that the German navy used Spanish ports to restock German vessels, particularly submarines, with food and fuel. Only two days after the German invasion of Poland, the German military attaché in Spain notified the OKM and the OKW about arrangements in the Atlantic port of Vigo where he reported that sufficient food and fuel stocks were now available. The report does not provide clear evidence on the origins of the oil, but it indicates the cooperation of the Spanish authorities in these preparations.[437] Although the refuelling of German submarines was undoubtedly worrying to the British government, it was even more concerned about the possible re-export of American oil to Germany. The British government tried to keep track of and compare Spanish import figures, alleged requirements and the country's actual consumption.[438] It was anxious not only to discover whether Spain was re-exporting oil to Germany, but also whether the Franco administration was trying to build up its own stocks for future military use against the Allies. Although a Spanish entry into the war seemed highly unlikely before the military collapse of France, it was not completely discounted.

The available evidence indicates that Britain was right to worry about the transfer of oil to Germany. At a meeting in early October 1939 the German ambassador, three German representatives and the shady Spanish financier Juan March[439], whose financial power and influence had been very useful to

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[436]PRO FO837/714, Letter, MEW to Eccles, 22/1/1940.

[437]BA/MA RW19/226, Telegram, German navy attaché Menzell in Spain to OKM and OKW, 3/9/1939. See also reports from the British Admiralty on sightings of German submarines alongside German tankers in Vigo in January and February 1940 (PRO FO371/24524/1903 and 2157, Communiqués from Admiralty, 3/2/1940 and 9/2/1940); see also C.B. Burdick, "'Moro'; the resupply of German submarines in Spain, 1939-1942", in Central European History, 3, 3, 1972.

[438]See, for example, PRO FO837/714, Telegram, FO to Sir Samuel Hoare, 10/6/1940 and reply, 13/6/1940.

[439]March tried to keep both Axis and Allies happy to harvest maximum profits. According to Denis Smyth, he was involved in a British scheme to bribe Spanish generals in 1940 (D. Smyth,

the Nationalists during the civil war, discussed the purchase of shares in the Spanish oil company Compania Española de Petroleos (CEPSA). The Nazi regime was intent on acquiring Spanish oil supplies from the United States. As the whole operation had to remain a secret, Juan March agreed to act as a front man and invest Pts 25 million supplied to him by Germany. At a later point, the acquired shares would then have been transferred into German ownership.[440] Two documents from June 1940 reveal the interested parties behind the deal, namely the OKM and the OKW. These documents also reveal that the money had again been taken from secret *Sparpeseten* accounts. When the German embassy tried to recover the money to use it for the *Wagner-Aktion*[441], its demand was rejected. The German navy was adamant that the money was essential to ensure oil supplies for German vessels in Spanish and Canary Islands´ waters. In fact, the OKW later demanded even more pesetas to pay for its secret operations in Spain.[442]

It has been argued that the `British blockade virtually ended German-Spanish economic relations´ during the first year of war.[443] Whilst there is no doubt that the blockade had an extremely damaging effect, the remnants of the economic relationship between the two states should nevertheless be examined. Immediately after the outbreak of war, ROWAK/SOFINDUS received orders for the procurement and export of vital raw materials.[444] Yet, faced with the disruption of rail links from Spain to Germany, the organization

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Diplomacy and Strategy of Survival, p.35, based on Dalton Papers, diary 24, 16/5/1941 and Lord Harvey of Tasburgh diaries, 15/11/1942).

[440]BA R2/24, Protocoll of the meeting with contract, 10/10/1939.

[441]See below, p. 146.

[442]BA R2/25, Letter, OKM to OKW, 15/6/1940; *ibid.*, Letter, OKW to RFM, 24/6/1940.

[443]G. Harper, German Economic Policy in Spain, p.131. Harper´s view concurs with Bethke´s statement to his Allied interviewers (BA R121/1237, Statement by Bethke to Allies, 18/8/1945). The Franco-British naval blockade commenced on 8 September 1939 and Britain introduced the Navicert- system on 1 December (K.-J. Ruhl, "L´alliance á distance", p.86).

[444]BA R7/733, Unsigned report on ROWAK/SOFINDUS, July 1942 (?).

had to examine the difficult transport situation. Clearly, two possibilities remained: transport by plane and, despite the Allied blockade, by ship. With regard to the latter transport facility, ROWAK/SOFINDUS became heavily involved in the planning of the *Wagner-Aktion* in late 1939.[445] Behind the code-name, which referred to one of the major organisers of the *Aktion,* navy attaché Captain Wagner of the German embassy in Madrid, lay the attempt by the RWM and the Four-Year-Plan-Office to buy roughly Pts 60 million of Spanish raw materials and transport them on blockade-runners to Germany.[446] A considerable number of German ships had found themselves trapped in Spanish ports at the outbreak of war, unable to leave because of the danger of British and French naval attacks. The German government quickly decided to sell some of these to Spain and use others as blockade-runners to transport Spanish goods to Germany, followed by the clandestine export of German goods to Spain.[447] While ROWAK was responsible for finding German buyers for the goods coming on blockade runners, SOFINDUS was in charge of the acquisition of the raw materials in Spain. In October 1939, SOFINDUS received Pts 10 million from the German embassy in Madrid to start with the purchases. This short-term loan was taken from the aforementioned secret *Sparpeseten* accounts held by the German embassy in Spanish banks. *In toto*, ROWAK/SOFINDUS/HISMA were responsible for the financing of 75 per cent *Wagner-Aktion* of the purchases. The remaining Pts 15 million were to be taken out of the secret *Sparpeseten* accounts.[448] Eventually, however, the *Sparpeseten* were returned to the German embassy to be replaced with Pts 20 million received from the sale of German aeroplane

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[445]BA R121/841, Audit of HISMA/SOFINDUS, 31/12/1939.
[446]The list of materials included wolfram, mercury, skins, furs, olive oil and lead.
[447]FCO/AA 136/73942f., Telegram, Wohlthat and Stohrer to German Foreign Ministry, 11/11/1939; FCO/AA 336/197048-050, Telegram, Wohlthat and Stohrer to German Foreign Ministry, 27/11/1939.
[448]BA R2/25, Memorandum by RFM on the financing of raw material purchases in Spain, 12/1/1940.

parts to the Spanish government.[449] In January 1940 negotiations with the Spanish authorities over the *Wagner-Aktion* were under way, but not yet successfully concluded. One month later, however, some ships were finally on their way to Germany. The available evidence suggests that the whole operation had been completed by June 1940.[450] With Spanish help, ROWAK/SOFINDUS had managed to break the British blockade and supply Germany with limited amounts of valuable raw materials. In fact, Spain also benefited from Germany´s use of blockade runners. Some of the aforementioned aeroplane parts, for example, arrived in Spain on ships as well as via Italy.[451]

With the help of Italy, Germany had, in fact, worked out a less dangerous method to continue trade with Spain. In September 1939 the Italian government declared its willingness to assist Germany and a plan to use Italy as the pivot between Germany and Spain was put into effect.[452] German goods were transported by rail to Italy. From there they were either flown to Spain on *Ala Litoria* planes or, more frequently, shipped to Spain on Spanish or Italian ships.[453] Immediately after the outbreak of war, Genoa developed into the central port for the latter kind of trade.[454] In one instance, the British Foreign Office was reliably informed that RM 16 million of German goods were awaiting shipment to Spain at Genoa.[455] Britain was also

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[449]BA R2/25, Letter, German Foreign Ministry to M.R. Meyer (RFM) and Bethke, 14/2/1940.
[450]FCO/AA 136/74024f., Telegram, Stille to German Foreign Ministry, 22/1/1940; BA R2/25, Memorandum by RFM on the financing of raw material purchases in Spain, 12/1/1940; BA R2/25, Letter, ROWAK to RWM, 24/6/1940.
[451]AHN PG-DGA 188/1. part of *Exp.* 1-2, Bill by HISMA on behalf of Buecker Flugzeugbau, 28/12/1939; FCO/AA 336/197057, Telegram, Sabath to German Embassy in Madrid, 1/12/1939.
[452]See FCO/AA 336/197010, Telegram, Stohrer to German Foreign Ministry, 19/9/1939; FCO/AA 136/73874-76, Telegram, Wiehl to German Embassy in Madrid, 22/9/1939.
[453]BA R121/819, ROWAK papers for 6th meeting of advisory committee, October (?) 1940; AHN PG-DGA188/1.part of 1-2.
[454]On 21 September 1939 the war diary of the *Wehrwirtschaftsstab* reported that the German government had asked Italy to import 1500 metric tons of goods on Spanish ships via Genoa (BA/MA RW19/228, Special report No.4, 21/9/1939).
[455]PRO FO371/24496/549, Letter, P. Harris (BoT) to FO, 10/1/1940.

concerned that Germany might continue to receive some iron ore from Spain and Spanish Morocco via Trieste.[456] One German company did indeed receive the help of the RWM in an ingenious scheme involving Spanish iron ore and Italy. It drew up a contract on the basis of which it sold 100,000 metric tons of Spanish iron ore to the Italian government who then sold the same amount of Italian iron ore to the German steel industry. At least in one case, Spanish iron ore was thus indirectly of use to the German war economy.[457] Generally, however, the outbreak of war brought supplies of Spanish iron ore to Germany to a near standstill and supplies from Spanish Morocco to a total halt.[458] While the value of iron ore supplies from Spain had amounted to RM 15.28 million in 1939, it fell to a meagre RM 0.1 million in 1940.[459]

The most regular trade link between Spain and Germany was guarantied by the Lufthansa service operating directly between the two countries, or via Italy.[460] The British government was concerned about the German use of her own and Italian air services to exports goods to Spain and barter them for `non-bulky, valuable goods´, such as wolfram, tin and bismuth. British worries were based on estimates which suggested that these services amounted to a daily capacity of 35 metric tons.[461] The German air service was in actual fact less successful than the British government feared. In the first eight months of 1940 Lufthansa undertook a total of 100 flights from Spain to Germany. To the disappointment of ROWAK, it only managed to transport

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[456]PRO FO371/23049/17724, MEW report, 3/11/1939; PRO FO837/108, Commodities Priority Committee, Report by Sub-Committee on Iron and Steel and Ferro-Alloys, 29/4/1940.
[457]BA R2/25, Letter, Bethke to German Foreign Ministry, 4/3/1940.
[458]BA R7/738, Unsigned memorandum *Entstehung*, 15/3/1940; BA R121/842, Audit of HISMA, 31/12/1939; BA R121/858, Audit of Minerales de España, 31/12/1939.
[459]The value of pyrite imports from Spain fell from RM 7.85 million in 1939 to RM 0.7 million in 1940 (K.-J. Ruhl, "L´alliance á distance", p.86).
[460]See AHN PG-DGA25/1757 for an example of a German air transport of circular saws via Rome to Barcelona, 29/4/1940.
[461]PRO FO371/24501/6938, Letter, Mr. Nowell (BoT) to Mr. Makins (FO), 21/5/1940; PRO FO371/24501/7314, Memorandum by Malcolm Thomson, British Embassy Madrid, June 1940.

about 300 metric tons of highly important Spanish and Portuguese raw materials to Germany.[462]

Although the foregoing provides some insight into trading developments between Spain and Germany during the first year of war in Europe, it is extremely difficult to present a complete picture of the economic relationship between the two countries. Statistics tend to concentrate on 1939 and 1940 as two separate years, and do not necessarily bring out the changes which occurred between September 1939 and August 1940. It appears, however, that imports from Spain fell from RM 22.5 million in the third quarter of 1939 to RM 8.9 million in the last quarter. Another sharp drop followed in the first six months of 1940 down to RM 1.9 million in the first and RM 1.6 million in the second quarter. Imports then started to pick up slowly in the third quarter (RM 4 million) to reach RM 12.4 million in the last quarter of 1940. The value of German exports to Spain also fell in the second half of 1939, from RM 21.2 million in the second quarter to RM 15 million in the third, and finally to RM 7.7. million in the last quarter of 1939. German exports to Spain in the first half of 1940, however, seemed to have kept up rather better than Spanish exports to Germany, with RM 5.2 million in the first, and the same amount in the second quarter.[463]

It is not surprising that German and Spanish reactions to the development of the economic relationship between the two countries reveal disappointment on both sides. In April 1939 the National Socialist regime was looking forward to a bright economic future for its investment and influence in Spain. The groundwork for an ever-growing exploitation of Spain was laid. Through SOFINDUS, newly founded in late 1938, ROWAK - *ergo* the German

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[462]BA R121/819, ROWAK papers for 6th meeting of advisory committee, October (?) 1940.
[463]IWM-SC FD3777/45 Files 1 and 2, Special reports *Der Außenhandel Deutschlands* by *Statistisches Reichsamt*, December 1939,1940 and 1941.

government - held sway over numerous Spanish mines and companies acquired during the civil war. HISMA/ROWAK, with the help of German embassy officials, had managed to force the Franco administration to accept MONTANA in late 1938 and the road seemed to be clear for the creation of a German mining empire in Spain. Grand plans of massively increased vital raw material supplies from Spain were based on the successful conclusion of MONTANA. Indeed, even without MONTANA HISMA/ROWAK had taken successful strides in the transformation of the trading relationship with Spain towards more raw materials imports. HISMA/ROWAK´s success was acknowledged by Hitler and Göring when both protected Bernhardt from determined attempts by the German Foreign Office to remove him from his influential position in Spain. Moreover, Göring´s protection of Bernhardt, his personal *protegé,* also proves that he was not willing to abandon his influence over Germany´s economic policy in Spain, least of all to Ribbentrop. Hermann Göring intended Spain to become a shining example of how his Four-Year-Plan-Office could ensure cheap and reliable sources of vital raw materials from abroad. Yet, when Göring unsuccessfully attempted to meet Franco in Spain in May 1939, he became ironically the first leading National Socialist to experience that not everything was going according to plan.

Indeed, one major unresolved issue, the question of Franco´s debt, had caused Göring some trepidation even before the end of the civil war. After the war, this issue became a symbol for Franco´s growing reluctance to have Spain fitted into National Socialist planning. From an ideological point of view, he was committed to the Axis. This was more than could be said of his economic commitment. While the Nazis felt that Franco owed Germany for her past intervention in the Spanish Civil War, he was more concerned about the economic future. This led to increased contacts with Britain and even a *rapprochement* with France.

Although the Nazi regime was not at all pleased about such overtures, there was not much it could do about this matter, even more so once the Second World War had broken out. Following the outbreak of hostilities Germany was in an even less promising position to supply Spain with the goods the country required than in the summer months of 1939. Therefore, if Franco Spain had remained totally committed to the Axis, wide-spread starvation and total economic collapse would have ensued. Despite his ideological convictions, including a detestation of liberal democracy, Franco proved to be an economic *Realpolitiker*. If western democracies wanted to trade with Spain and even offered financial credits, then Franco would not stop them in their efforts. Anything else would have been foolish and self-destructive.

Despite desperate attempts to export as much as possible from Spain, economic relations with Germany remained dormant during the first year of war. German efforts to build up a mining and company empire were put on hold, yet contacts to Spanish officials and businessmen were kept alive. Göring and ROWAK/SOFINDUS did not give up hope for a future continuation of their plans, though such a development required first the removal of France as a barrier between Spain and Germany. In the event, this was achieved when German troops reached the Spanish border on 27 June 1940. As a military man, Franco could not be but impressed by the magnitude of Germany´s victory, and the presence of victorious German troops on Spain´s Northern Border would be a constant reminder of the extent of German military power. The next chapter is concerned with a crucial factor in Germany´s military success in 1940, her war *matériel*. Spanish demands for German arms and German supplies of such equipment proved to be an integral part of the economic relationship between the two countries until mid-1944.

CHAPTER IV

THE ROLE OF GERMAN WAR MATÉRIEL IN THE ECONOMIC RELATIONSHIP WITH SPAIN DURING WORLD WAR II

Germany´s rapid defeat of France and the occupation of large parts of the country - including the western part of the Pyrenees - convinced Franco about the imminence of total German victory. Italy had already reacted to Germany´s military successes and had finally entered the war on her side when Franco decided to alter Spain´s official attitude towards the war. On 12 June 1940 the Spanish government announced that it was switching Spain´s official status from neutrality to `non-belligerency´. Belatedly, Spain thus copied Italy which had declared herself non-belligerent after Germany´s attack on Poland.[464] Although Franco expected that Britain would soon succumb to Germany´s military strength, he did not immediately enter the war. Nevertheless, he very quickly approached the Nazi regime about the possibility of a Spanish entry into the war. For the following six months this issue became the central subject for all German-Spanish - as well as Anglo-Spanish - negotiations. In fact, at no other point during the Second World War was a military partnership between Spain and the Axis more likely than during the second half of 1940.

It is not the task of this study to examine all the developments in the relationship between Germany and Spain during those crucial months but,

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[464]Officially, non-belligerency `has been defined as a legal state of being signifying ´various shades of partiality toward the contending parties, but stops short of war in the full legal sense`, allowing a nation to make commitments to a belligerent short of war but without violation of neutrality or state of war clauses in international law,...´ (J. Cortada, United States-Spanish Relations, Wolfram and World War II, Barcelona:1971, pp.30f., footnote 29).
The Spanish government interpreted the term to mean that it was officially neutral, but `that its sympathies and hopes for the outcome of the war were with the Axis powers´ and that `it had a vital interest in a German victory´ (FCO AA89/102800f., Telegram, Dieckhoff to German Foreign Ministry, 3/10/1943, author´s translation, C.L.).

rather, to focus on the economic aspect.[465] It has been argued that economic considerations were significant in the hesitation of the Spanish regime to join the war. While reference will therefore be made to the economic aspects of Spain´s negotiations with both Germany and Britain during these months, the chapter will mainly concentrate on the actual economic relationship between Germany and Spain until the end of 1943, and Allied attempts to interfere with it.

The arrival of German troops on the Pyrenees was bound to alter the pattern of trade between Germany and Spain. During the second half of August 1940, rail transports to and from Spain recommenced which led to a rapid expansion of trade between the two countries.[466] Trade was now no longer restricted to irregular blockade runners, transports via Italy and the Lufthansa air service. Though the latter proved to be more regular than the former, air services had been hampered by the fact that only limited amounts of goods could be loaded. The recommencement of transport by rail revitalized German imports of Spanish raw materials and Spanish imports of bulky German manufactured goods. Spanish needs were great in many respects. Yet, the Franco regime soon realized that Germany was not able to become a regular source of certain essential goods. The German government emphasised its inability to supply Spain with grain immediately after the defeat of France.[467] Despite the occasional delivery and many promises over the following three

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[465]A number of very interesting books and articles exist on the discussions over a possible Spanish entry into the war. I particularly refer to the following: D. Detwiler, Hitler, Franco and Gibraltar ; P. Preston, The Politics of Revenge, Fascism and the Military in Twentieth-Century Spain, London:1990; P. Preston, "Franco and Hitler: The myth of Hendaye", in Contemporary European History 1/1 (see also P. Preston, Franco, A Biography, London:1993); M. Ruiz Holst, *Neutralität oder Kriegsbeteiligung?* ; D. Smyth, Diplomacy and Strategy of Survival.

[466]BA R121/819, ROWAK papers for 6th meeting of advisory committee, October (?) 1940.

[467] ADAP, D, IX, doc.476, pp.500f., Telegram, Wiehl to German embassy in Madrid, 17/6/1940.

years, the Spanish government could only be disappointed about Germany´s´ reluctance to deliver food.[468]

Until mid-1944, demands for German supplies tended to concentrate on war *matériel.*[469] Several important underlying factors were responsible for this particular interest in German arms. Germany´s military successes in 1940 had again underlined the belief of many Nationalist officers in the superiority of German armaments. In fact, their experience of German war *matériel* during the Spanish Civil War had laid the groundwork for this conviction. Moreover, it appeared easier to continue receiving weapon systems on which many Nationalist soldiers had been trained than to change over to completely different types. Finally, the Spanish Civil War had left the Nationalist army in particular need of German spare parts for the repair and upkeep of their own equipment and the material left behind by the Condor Legion.[470]

Despite its preference for German equipment, the Spanish military nevertheless also applied for Allied war *matériel.* The generally hesitant, and occasionally hostile, response it received, enhanced Germany´s role as a supplier. Initially, the British government rejected the idea of arms supplies because it was too worried that Spain would eventually join Germany in the war and turn British weapons against the Allies. Although this became increasingly

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[468]In September 1940 the German Government promised up to 400,000 metric tons of flour. Yet, the only official contract on German grain deliveries to Spain I was able to find concerns a deal between the German *Reichsstelle für Getreide, Futtermittel und sonstige landwirtschaftliche Erzeugnisse* and *Servicio Nacional de Trigo* (Spanish National Wheat Board). Germany promised to supply Spain with about 20,000 metric tons of wheat and 10,000 metric tons of rye. The contract was to be fulfilled by the end of March 1944. However, by the end of February only a total of 397 metric tons of grain had reached Spain (FCO AA2174/471436-41, Memorandum by Wiehl on Spanish economic and military requirements, 12/2/1941; BA R121/762, Contract, 17/1/1944 and one unsigned report, 1/3/1944).

[469]See table 23 on page 184 for data on defense expenditure as percentage of Spanish state consumption.

[470]According to the first calculations after the end of the Spanish Civil War, Germany left behind war *matériel* at a total original value of about RM 70 million. However, in December 1940, in the final calculation on the Spanish debt, the sum to be paid by Spain had been reduced to RM 12,552,554 (ADAP, D, III, doc.783, pp.763-5, undated memorandum by Sabath; BA R121/1237, ROWAK correspondence, Enclosure III, 21/9/1956).

unlikely as the war progressed, the uncertainty about the regime´s policies and the possibility of re-exports of Allied war *matériel* to Germany rarely allowed a decision in favour of Spain. Foreign Office documents reveal a particular instance in early 1943 when the American and British Governments were faced with the question of whether to supply Spain with aircraft and aviation fuel. The underlying view of the British government becomes apparent in comments by Foreign Office officials on requests from Spain. It was argued that the uncertainty of `Spanish policy´ made it difficult `to justify the supply of any valuable war material.´[471] It was finally decided that only Allied aircraft which had been forced to land and limited amounts of aviation spirit could be sold to Spain. The fact that a Spanish air squadron was at the time fighting for Germany on the Eastern Front helps to explain the reluctance of the Western Allies.[472] In any case the Allies did not trust the Franco regime enough to provide it with arms. Germany, on the other hand, proved to be more willing to supply Spain with war *matériel,* though she was not always able to fulfil all Spanish demands. German arms supplies formed an essential part of Germany´s trade with Spain and were often the only way for the Nazi regime to ensure the receipt of much-needed supplies of raw materials in return.

The question of war *matériel* deliveries was brought up by Spanish representatives months before Germany´s defeat of France. As the Spanish government was particularly keen on an expansion of its air force, most of the discussions on arms supplies during the first half of 1940 centred around this issue.[473] In January 1940 Lieutnant Colonel Francisco Arranz[474], director for

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[471]PRO FO371/34792/1012,Comment by Michael Williams to a letter from the MEW on Spain´s request for aviation spirit, 26/1/1943; PRO FO371/34794/2818, Comment by Hancock to a telegram from Hoare on supply of aviation spirit, 13/3/1943.
[472]PRO FO371/34793/1942, Report by S. Williams, 16/2/1943; PRO FO371/34794/3200, Telegram, FO to Washington, 28/3/1943.
[473]FCO AA136/73846, Telegram, Air attaché Krahmer to Reich Air Ministry, 5/9/1939; FCO AA1308/348615-17, Letter, Bethke to German Foreign Ministry, 18/10/1939; FCO AA3868/045919, Telegram, Sabath to German Embassy in Madrid, 7/12/1939.
[474]This was the same Arranz who had accompanied Bernhardt to Germany in July 1936.

matériel acquisitions for the Spanish air force, arrived in Germany as the first `petitioner´ in what was to be a succession of Spanish negotiators during the course of the Second World War. He conveyed the wishes of the Spanish air force for German spare parts and planes for a total value of RM 40 million. Furthermore, he tried to convince the German government to contribute to the expansion of the Spanish aircraft industry by investing RM 45 million in it. The reaction of the German government was one of hesitation, in the case of Göring even of annoyance, as it preferred to supply countries which would send important goods in exchange. In the case of Spain, this was not only prevented by the problematic transport situation, but also by an apparent reluctance of Spanish officials to release sufficient raw materials, such as lead, wool and oil.[475] Nonetheless, at the end of January 1940, General Udet of the German Air Ministry, acting on behalf of Göring, promised to supply Spain at least with war *matériel* worth RM 5 million.[476] Despite the meagre results of the Arranz mission, the Spanish government continued to approach German officials about the requirements of its air force. To reinforce Franco´s desire to cooperate with Germany and to expand the Spanish air force, General Juan Yagüe Blanco, the Spanish Air Force Minister, asked the German government to receive another Spanish air force delegation.[477] This second delegation, which arrived in Berlin on 1 May, was headed by General Barrón with Arranz again being involved in the discussions. This time Göring appeared to have been more accommodating, though details of any possible deal were not decided upon.[478] The Nazi regime was evidently not in a hurry to come to a definite agreement.

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[475]FCO AA333/196399, Telegram, Stohrer to German Foreign Ministry, 8/3/1940.
[476]FCO AA3868/046003, Telegram, Wiehl to German Embassy in Madrid, 31/1/1940; M. Ruiz Holst, *Neutralität oder Kriegsbeteiligung?* , p.47.
[477]ADAP, D, IX, doc.169, pp.195ff., Memorandum by Counsellor to a Legation Schüller, 26/4/1940.
[478]ADAP, D, IX, doc.230, p.260, Memorandum by legate Abetz, 10/5/1940; M. Ruiz Holst, *Neutralität oder Kriegsbeteiligung?* , p.51

Germany´s defeat of France led to a gradual change in her attitude towards Spain. The likelihood of an improvement of the transport situation increased - or in the case of iron ore from Spanish Morocco and the Bilbao region[479] rekindled - Germany´s interest in certain Spanish raw materials. This would ultimately lead to a complete reappraisal of Spanish requests for war *matériel.* Initially, these requests emerged for the most part among Spain´s pre-conditions for an entry into the war[480], though they continued to be important once a rapid Spanish entry became unlikely. As a matter of fact, the supply of war *matériel* to Spain appeared to be one of the least problematic issues during the crucial period of discussions between German and Spanish officials in September and October 1940. Problems developed over Spain´s main requests for such essential goods as wheat, oil, cotton, fertilizers and coal. Demands for these exceeded anything Germany could or would supply.[481] Although Stohrer´s reports from Spain did their best to justify these requests,[482] some Nazi leaders were clearly annoyed about the attitude of the Franco regime, which impudently demanded goods first before considering joining the war. Under these circumstances, Göring expressed scepticism about the usefulness of a Spanish entry into the war.[483] Clearly, Göring´s reaction must be interpreted against the background of all the other problems the regime´s requirements were causing Germany. Not only did it demand substantial amounts of various goods, but it also presented a list of territorial demands in

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[479]J.-J. Jäger, *Die wirtschaftliche Abhängigkeit des Dritten Reiches vom Ausland, dargestellt am Beispiel der Stahlindustrie*, Berlin:1968, p.186.

[480]ADAP, D, X, doc.313, pp.364ff., Memorandum by Stohrer, 8/8/1940.
While Hitler´s reaction to Franco´s offer of a Spanish entry into the war had been lukewarm in June, his attitude had changed completely by August (For the way Hitler´s interest in a Spanish entry into the war grew during the second half of 1940, see M. Ruiz Holst, *Neutralität oder Kriegsbeteiligung?*).

[481]In August 1940 Alarcón de la Lastra, the Spanish Economics Minister, had already estimated annual Spanish requirements to amount to about 400,000 metric tons of petrol, 6-700,000 metric tons of wheat, 200,000 metric tons of coal, at least 300,000 metric tons of different oil types, 625,000 metric tons of nitrate fertilizers as well as a number of other items (ADAP, D, X, doc.355, p.412, Telegram, Heberlein to German Foreign Ministry, 16/8/1940). Spanish requests were to increase, rather than decrease thereafter (FCO AA324/193983-85, Report on a meeting in the German Foreign Ministry, 27/9/1940).

[482]ADAP, D, X, doc. 405, pp.463f., Letter, Stohrer to Ribbentrop, 27/8/1940.

[483]ADAP, D, X, doc.404, p.463, Footnote 2 to a memorandum by Woermann, 27/8/1940.

North Africa which did not fit in with the plans of the Nazi leadership.[484] Moreover, Göring was still annoyed about the dilatory Spanish attitude on the question of the civil war debt to Germany. He felt that the Spanish leadership was obviously keen on postponing any final decision on the amount to be paid and the payment conditions, despite the fact that it had arrived at a debt repayment agreement with Italy in May 1940.[485] In fact, discussions on the debt problem continued long after the negotiations on an entry into the war had petered out, and were never completely resolved. (see table 19)

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[484]For a list of territorial demands, see ADAP, D, X, doc.313, pp.364ff., Memorandum by Stohrer, 8/8/1940. For detailed background information on Nazi plans and Spanish territorial demands, see sources quoted at the beginning of this chapter.
[485]PRO FO371/26942/11938, Memorandum on Spanish Finance, by British Embassy, 14/10/1941.

Table 19: TABULAR HISTORY OF CIVIL WAR DEBT DEVELOPMENTS[486]

Date	Debt Development
a) 28/2/1941	Debt fixed at RM 371,819,548.46[487]
b) 1944	Debt reduced by 27.8% (= RM 75 million) on capital cost of war supplies
c) March 1940 - March 44	Interest added calculated at 1.7% (= RM 22 million)
d) Date unknown	50% of cost of damage to German civilian property during civil war deducted (= RM 22.5 million)
A) TOTAL GERMAN CLAIMS	Approximately RM 337 million
SPANISH COUNTER CLAIMS	
a) During civil war	Cash payments made in pesetas (= RM 35 million)
b) From November 1943	Cash payment made to German Embassy (= RM 100 million)
c) March 1944	Spanish issue of Austrian loan, taken over by Germany (= RM 11 million)
d) After 1941	Amounts paid into accounts in Germany by Spanish workers in Germany and occupied countries (= RM 20 million)[488]
e) During World War II	Spanish shipping losses (= RM 0.8 million)
B) TOTAL SPANISH CLAIMS	RM 167 million
BALANCE (A-B)	RM 170 million
CONSOLIDATED CLEARING DEBT	of RM 70 million deducted
TOTAL REMAINING SPANISH DEBT AT END OF WAR	**RM 100 MILLION**

[486]Based on statements by Dr. Koenning (RFM), Becker (Economic chancellor of German Embassy in Madrid) and Enge (Commercial secretary of German Embassy in Madrid) to the Allies in late 1945 (PRO FO371/49671/13460, Letter, G. Villiers to FO, 6/12/1945; BA R121/1237 ROWAK correspondence, Enclosure III, 21/9/1956; BA R2/26, Protocol on Spanish civil war debt, signed on 28/2/1941; BE DE-IEME.*Secretaría Caja* 160).

[487]This amount does not include the expenses of the personnel of the Condor Legion. In spring 1944, both sides decided to cancel these out (= RM 115 million) against the expenses of the Blue Division (= RM 81.5 million + RM 20 million for indemnification of Spanish dead and wounded).

[488]Negotiations on the dispatch of Spanish workers to Germany had started in Madrid in early August 1941. From the outset, the German delegation demanded that the wages paid to any Spanish workers in Germany would have to be paid into a special account in Berlin. This was then used to compensate part of the Spanish civil war debt while the Spanish Government paid the equivalent amounts in Pesetas to the families of the workers. On Serrano Suñer´s instructions this German demand was accepted on 22 August 1941. By summer 1943 about 8,000 Spanish workers were employed in Germany, the highest amount at any given time after the signing of the agreement. This figure, however, does not include Spanish exiles in France forced to work in Germany and for the German occupation forces (R. García Pérez, "El envio de trabajadores españolas", in *Hispania* XLVIII, *passim*).

Yet, despite German dissatisfaction about the Spanish attitude, the Spanish negotiators in autumn of 1940 had undoubtedly good reasons to be dissatisfied. The Spanish government was alarmed about German counter-claims in the event of a Spanish entry into the war. The Nazis were extremely eager to get their hands on British and French companies in Spain and mining companies in French Morocco. Top of their list of demands were mining companies such as Rio Tinto, Tharsis Sulphur Copper Mines and Sevilla Sulphur & Copper. Yet, these demands created an enormous dilemma for Franco, who had pledged to bring foreign properties - and particularly the pyrite mines of the Huelva region - back into Spanish hands.[489] In the end, negotiations resulted in a fairly vague agreement under which both sides would have a share in the mining companies. The production of the confiscated companies would be exported to Germany, though only after Spain had fulfilled her own requirements. Generally, exact details were to be decided upon once the properties had been taken over. Even this tentative agreement, however, pushed the Spaniards to the limits of their patience.[490] It could be regarded as a `proud act of defiance´ that, even while negotiations were going on in October 1940, French companies in Spain, which appeared on the German list of demands, were being purchased by Spanish buyers.[491]

Despite the only meeting between Hitler and Franco at Hendaye on 23 October 1940, no real progress was being made in bringing Spain closer to an entry into the war.[492] In fact, the unexpected continuation of the war due to Britain´s defensive efforts and Germany´s inability to launch an invasion compelled Franco to be slightly more cautious. While Germany could have

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[489]Serrano Suñer apparently described Rio Tinto as `economic Gibraltar´ (D. Smyth, Diplomacy and Strategy of Survival, p.91).
[490]ADAP, D, XI/1, doc.125, pp.183ff., Memorandum by Wiehl, 28/9/1940; see A. Viñas, *Política Comercial Exterior*, pp.391f., footnote 230, for Franco´s hostile reaction to German plans for partial ownership of foreign companies in Spain.
[491]ADAP, D, XI/1, doc.198, pp.280ff., Memorandum by Wiehl, 19/10/1940.
[492]See P. Preston, "Franco and Hitler", *passim*.

tempted Franco more easily to join the war in June, `the Germans at all levels were arrogant and dismissive towards the Spaniards.´[493] By November, Franco´s insistence on certain pre-conditions, not least in the economic field, had become more pronounced.[494] In fact, about the only part of the negotiations which was apparently carried out satisfactorily was the trade of German war *matériel* against Spanish raw materials. By November 1940, no comprehensive agreement had been signed yet to regulate these so-called HELUMA-deals.[495] Officially, however, a system for these transactions had already been worked out and ROWAK and SOFINDUS played their usual roles in these government deals.[496] Any order by one of the three Spanish war ministries had to be presented to the German embassy which would then pass it on to ROWAK. Subsequent to the arrival of the order, ROWAK would contact a suitable German producer who would need to get an export permit from the relevant Reich department. Upon receipt of such permits, the embassy would reveal the value of the war *matériel* to SOFINDUS which enabled the latter to arrange for the purchase and export of Spanish raw materials of an equivalent value. At the same time, the respective Spanish war ministry would arrange for import permits and the payment in Reichsmarks of the permitted orders. The German exporter would only be able to release the material after he had received confirmation from ROWAK that the financial side of the transaction had been completed.[497] In practice, the system proved to be more advantageous to the Spanish Air Ministry than to Germany. While the Air Ministry, and the German

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[493]P. Preston, The Politics of Revenge, p.60.

[494]The Spanish government again insisted on urgent deliveries of wheat to prevent the threat of widespread starvation (ADAP, D, XI/2, doc.340, pp.488f., Memorandum by Wiehl, 15/11/1940).

[495]HELUMA stands for *Heer-Luft-Marine* (army-air force-navy), a name given to the deals by the German embassy in Madrid.

[496]The RWM had expressed the need for a comprehensive agreement on armaments supplies in September 1940. Then, SOFINDUS had been suggested as compensation office in Spain (BA R121/1237, Letter, RWM to Sabath, 9/9/1940).

[497]FCO AA1308/349200, Memorandum by the German Embassy on the running of the HELUMA-orders, 7/11/1940.

exporting companies, were quick in arranging for the required permits, the Spaniards were slow in supplying equivalent amounts of raw material.[498]

Regular hiccups remained characteristic of the important trade of German war *matériel* for Spanish raw materials. In view of Germany´s constant, and increasing, clearing deficit with Spain, the offer of war *matériel* proved quite often to be the only way to tempt the Spanish government to release raw materials for export to Germany. (see table 20)

Table 20: GERMANY´S CLEARING DEFICIT IN THE ECONOMIC RELATIONSHIP WITH SPAIN (in RM), 1941-43

On	Clearing Deficit
31/12/1941	122.1 million
30/ 6/1942	140.0 million
31/12/1942	144.0 million
30/ 6/1943	248.8 million
30/ 9/1943	239.9 million

Source: BA/MA RW45/18, Unsigned statistic, 18/1/1943; BA/MA RW45/19.

Yet, a comprehensive separate agreement on a direct barter of war *matériel* and raw materials as demanded by the German embassy in Madrid in 1940, was never concluded. In early 1941, it was finally decided to incorporate arms and Spanish raw materials into the general trade between the two countries.[499]

By the beginning of 1941 the Nazi leadership had become convinced that Spain´s economic and military demands, which went far beyond anything Germany could supply, had to be interpreted `as an expression of the

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[498]FCO AA1308/349192-97, Letter, Heberlein to German Foreign Ministry, 14/11/1940.
[499]DGFP, D, XII, doc.562, pp.904f., Letter, German Foreign Ministry to RWM and OKW, 27/5/1941.

endeavour ... to avoid an entry into the war.'[500] By then, Spain's list of requests which had been growing all the time, had become formidable. (see table 21)

Table 21: SPANISH LIST OF REQUESTS in February 1941 (in metric tons)

Fertilizers	240,000 t (till 15/4/1941) 80,000 t quarterly (after 15/4)
Rubber	3,000 t quarterly
Cotton	23,000 t quarterly
Jute	4,500 t quarterly
Fuels	117,000 t monthly
Grain	1,068,730 t (March to July 1941)
Copper	3,750 t quarterly
Tin	40,000 t quarterly
Ball-bearings	3,057 pieces
Explosives	13,900 t

Unknown quantities of chemicals, war *matériel*, trucks, railway stock.

Source: FCO AA2174/471436-41.

In 1941, the Nazi regime continued vainly with its efforts to convince Spain to join the war on its side. The Spanish government, however, became increasingly concerned to create an acceptable *modus vivendi* with the Allies, even more so after the USA had finally joined Britain in her war against the Axis in December 1941. Indeed, immediately after the American entry into the war, Stohrer was informed by the Spanish Minister of Industry and Commerce, Demetrio Carceller Segura, that this created a serious threat to the Spanish economy.[501] The negotiations with Germany between summer 1940 and summer 1941 had proved to be a disappointment to the Franco regime. Despite further negotiations, it had to conclude that Germany would not provide Spain with most of the goods the country really needed. Franco and his officer corps were undoubtedly keen on German military supplies. However, arms could

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[500]FCO AA2174/471436-41, Report by Wiehl on a memorandum of the Spanish General Staff, 12/2/1941; DGFP, D, XII, doc.28, pp.51-53, Stohrer to German Foreign Ministry, 7/2/1941.
[501]ADAP, E, I, doc.18, pp.30-32, Telegram, Stohrer to German Foreign Ministry, 16/12/1941.

neither feed a starving population, nor could a decaying economy be run with them. Most of the basic goods Spain needed would have to come directly from, or at least with the help of, Britain and the United States.[502] Ideologically and militarily closely associated with the Axis, the Franco regime was nevertheless forced to maintain relations with the Allies. Indeed, Franco had to lurch from Axis to Allies in order to to obtain economic assistance from both sides. This `rolling motion´ of the regime became increasingly obvious to both belligerent sides. It led to some annoyance amongst the Nazi leadership, yet no drastic steps were ever taken. Amongst British and American government officials, on the other hand, Franco´s proximity to the Axis led to heated debates over the question of whether to assist Spain economically, or not.

In summer 1940, in view of Spain´s declaration of non-belligerency, the British government had become convinced of the strong likelihood of a Spanish entry into the war. Yet, amongst cabinet members and advisers there was clearly some discord on the question of the right response. Hoare and David Eccles, his economic adviser, insisted on their policy of wooing Franco and urged the British government to step up its economic assistance to Spain.[503] Hoare was convinced `that the wise policy is to treat Spain as a not unfriendly neutral.´ Both Hoare and Eccles agreed that any harsh steps against Spain might even force Franco to join the Axis, or in Hoare´s own words: `If you threaten a Spaniard, he becomes a mule that kicks back´. Later, in his memoirs Hoare would describe his beliefs and actions as `the school of the carrot.´ The Foreign Office did not always agree with Hoare´s reports, but usually went along with his suggestions, particularly while Viscount Halifax was still at its

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[502]See D. Wingeate Pike, "Franco and the Axis Stigma", in Journal of Contemporary History, Vol.17, p.375.

[503]PRO FO837/719, Letter, Eccles to Earl of Drogheda (MEW), 24/9/1940.
Eccles´ willingness to help Franco has to be seen in light of his attitude during the Spanish Civil War. Only one month after its outbreak, Sir George Mounsey had to warn Eccles, who had just returned from Spain, about being `clearly so entirely prejudiced in favour of the rebels´ (PRO FO371/20527/7745, FO Minute by Sir G. Mounsey, 4/8/1936).

helm, that is, until December 1940. Others were not so inclined to accept Hoare´s view. If the British Ambassador´s position represented the `carrot´, the first Minister of Economic Warfare provided `the school of the big stick.´[504] Hugh Dalton was not at all impressed about Hoare´s, or as he perjorativily put it, `Slimy Sam´s´ attitude which seemed to be undermining British blockade efforts.[505] In a scathing attack on Hoare and Eccles he told the latter that `this policy of yours and Hoare´s goes far beyond appeasement. It is sheer abasement.´[506] Dalton was convinced that Spain would ultimately join the Axis, and that it would therefore make more sense to let the Franco regime start hostilities `naked and starved.´[507] For the time being, Britain should therefore use all its blockade facilities, such as navicerts[508], the ship warrant scheme, the refusing of export licences, and black lists, ruthlessly against Spain.

A particular bone of contention for the opposing parties in the British government was provided by the question of oil supplies to Spain. In contrast to the debate on the same issue before the defeat of France, this question had taken on a far more serious edge. Should Spain be given the opportunity to increase her stocks of oil with the help of Britain, some asked, only to use them against Britain later? Clearly, Dalton would not allow Spain to reach such a point. He therefore insisted on strict controls of Spanish imports and stocks. Hoare, on the other hand, was convinced that Spain did not deliberately try to deceive Britain, but that its administration was too inefficient to provide correct

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[504]PRO FO800/323, Letter, Hoare to Halifax, 16/7/1940; PRO FO371/24515/7189, Handwritten remark by S. Williams on a telegram from British Embassy in Rome, 8/6/1940; PRO FO371/24513/12552, Letter, Hoare to FO, 22/11/1940. On Halifax´ support for Hoare, see D. Smyth, Diplomacy and Strategy of Survival, p.35. On the two schools of thought, see S. Hoare, Ambassador on Special Mission, London:1946, p.62.

[505]Entries into Dalton´s diary, 25/7/1940 and 31/8/1940, in B. Pimlott (ed), The Second World War Diary of Hugh Dalton 1940-1945, London:1986, p.65 and p.79.

[506]Letter, Dalton to Eccles, 1/12/1940, in B. Pimlott (ed), The Second World War Diary of Hugh Dalton, p.113.

[507]PRO FO800/323, Letter, Dalton to Eccles, 27/8/1940.

[508]Navicerts were `commercial passports for ships´ cargoes permitting them to pass through the blockade´ (D. Smyth, Diplomacy and Strategy of Survival, p.40).

figures. His position was strengthened by the reaction of the Spanish government which, in early September 1940, entered into an agreement with Britain on the oil question. It promised not only to reduce the country's petrol stocks to 160,000 tons by the end of 1940 and to maintain it at that level, but also not to re-export any imported oil.[509] Yet, even if Britain decided in favour of Spain to ensure the supply of oil to Spain, it was dependent on the help of the United States.[510] The American government, however, was deeply suspicious about the Franco regime. According to Herbert Feis, the Roosevelt administration had not been satisfied with the attitude of the Spanish government in early 1940. Then, it had gained the impression that the Franco regime was disrupting American commercial and investment interests in Spain. The subsequent reduction of oil supplies in summer 1940 proved to be a powerful weapon to make the Spanish government more amenable. Indeed, according to Feis, it was this kind of American pressure which forced the Spanish government to come to an agreement with Britain in September.[511] In fact, the Franco regime grudgingly acknowledged the economic and financial power of the United States when, during the same month, it unsuccessfully attempted to get a remarkable $100 million loan from the United States. The government intended to use the loan mainly for wheat, oil and cotton purchases, and annual shipments of olive oil over the next twenty years were suggested as repayment.[512] Although no agreement was ever reached, this request was symbolic for the continued, and increasing, involvement of the United States in the economic affairs of Spain.

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[509] *Ibid.*, pp.61-63.
[510] S. Hoare, Ambassador on Special Mission, p.97.
[511] H. Feis, The Spanish Story. Franco and the Nations at War, New York:1948, pp. 25, 46 and 51.
[512] D.Smyth, Diplomacy and Strategy of Survival, p.115; S. Ben-Amí, *La revolución desde arriba: España 1936-1979*, Barcelona:1980, p.68.

As far as Britain was concerned, Dalton reluctantly accepted a more conciliatory attitude towards Spain. Despite the arrival of the anglophobe Ramón Serrano Suñer at the Spanish Foreign Ministry, following Franco´s dismissal of Juan Beigbeder on 17 October 1940[513], both governments continued to negotiate. Yet, the Janus-faced attitude of the Franco administration became again apparent when it finally recognized the War Trade Agreement with Britain during the same month, at a time when it was actually negotiating with Germany over an entry into the war.[514] In fact, the Spanish government, which had only started using the first British credit in August, was already applying for a second loan in November of 1940. The request for a second British loan, this time amounting to £2.5 million, was all grist to Hoare´s mill. He interpreted it as a clear sign of the success of his policy. On 1 December 1940 he was instructed to offer the Spanish government immediate credit up to £2 million.[515] In the event, four months elapsed until the Spanish government finally signed the new loan agreement.[516]

While Britain continued to assist Spain, Germany tried to delay any commitment to supply her with wheat until after a Spanish entry into the war.[517] By late 1940 Spain was suffering from a terrible food shortage. The consequences of the civil war - the appalling transport situation being the most obvious one - combined with other factors to threaten wide-spread starvation. These factors included bad weather, the reluctance of Spanish farmers to grow wheat under the new Francoist system of controls, the shortage of labour and

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[513]Hoare was very disappointed about Beigbeder´s dismissal as he had regarded him as a useful friend. He believed that Serrano Suñer was trying to obstruct economic negotiations between Britain and Spain (S. Hoare, Ambassador on Special Mission, pp. 73 and 96).

[514]PRO FO371/34840/447, Financial report No.20 by H. Ellis-Rees, 31/12/1942.

[515]L. Woodward, British Foreign Policy in the Second World War I, London:1970, p.442. The British Government was even prepared to increase credit facilities to £4 million up to June 1941 `if the political situation developed favourably.´

[516]The agreement was signed on 7 April and came into force on the following day (PRO FO837/735, undated summary of events; PRO BT11/1517, Progress report No.4 by H. Ellis-Rees, 28/3/1941; P. Preston, The Politics of Revenge, p.74).

[517]M. Ruiz Holst, *Neutralität oder Kriegsbeteiligung?* ,p.143.

the lack of fertilizers. In fact, Spanish fertilizer production in 1940 reached only 33.6 per cent of its 1929 level.[518] Unsuccessful in its appeals to Germany, the Franco regime again turned to Britain and the USA. Yet, as with the question of oil supplies, the United States initially showed some reticence about sending wheat to Spain.[519] After some toing and froing at the end of 1940, the first American cargo of food aid sent through the Red Cross reached Spain in February of the following year. Overall, more than 15,000 tons of American food and medical supplies arrived in Spain in the spring months of 1941.[520] However, it was the British government which proved to be more forthcoming towards the Spanish regime. Constant pressure by Hoare and Eccles had worn down even Dalton. Anthony Eden, Halifax´s successor as Foreign Secretary, who was also sceptical about Franco´s neutralist credentials, accepted Hoare´s recommendations, too. Spain must not starve, the argument went, even if it meant tapping British overseas wheat resources. On 7 December 1940 the Spanish government finally received British proposals to make available 10,000 tons at once from its stocks in Argentina, 15,000 tons after 15 December, and possibly even a further 200,000 tons in future. Additionally, 25,000 tons of wheat were to be sent immediately from Britain´s Canadian wheat stocks. According to Denis Smyth, `the only condition attached was that Spain should formally reassure Britain about its actions in, and intentions over, Tangier.´[521]

At the beginning of 1941, Germany, Britain and the USA had, to varying degrees, reasons to be dissatisfied with Spain´s attitude. The USA were still

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[518] W. N. Medlicott, The Economic Blockade I, p.538; D. Smyth, Diplomacy and Strategy of Survival, pp.78f.

[519] In December 1940 the US Government was again alarmed by rumours about the supply of German destroyers in Spanish bays (H. Feis, The Spanish Story, p.147).

[520] D.Smyth, Diplomacy and Strategy of Survival, p.129.

[521] *Ibid.*, pp.131f. (based on PRO FO371/24513/13361 and PRO FO371/24453/13205). Spanish troops had occupied the international zone of Tangier on 14 June 1940. To the annoyance of the British and American governments, the regime then annexed the zone on 3 November (for a detailed treatment of the Tangier Crisis see *ibid.*, pp.133-172).

extremely distrustful of Spain which they regarded `as more than half in the enemy camp.'[522] Britain was not yet sure whether Spain would sign the new loan agreement. At the same time, Britain could feel some degree of satisfaction. According to Medlicott

> it can be said that the major difficulties over the running-in of the rationing machinery [to deal with and control the amount of goods to be sent to Spain] appeared to have been overcome by the end of 1940, although wearisome argument continued over details of practical application.[523]

It was the Nazi leadership who had good cause for disappointment and dissatisfaction. After all, despite all the time spent on negotiations, Spain had still not entered the war. In fact, the likelihood of such an entry had decreased. From the economic stand-point, 1940 had been a very disappointing year for the German-Spanish relationship.[524] The only hope was that 1941 would bring some considerable improvement.

1941 proved to be a turning point in the economic relationship with Spain for both Britain and Germany. By July 1941 the Spanish market had become an increasingly convenient source for Britain for commodities such as iron ore. According to Denis Smyth it was ironic that now `Britain was to some extent becoming economically dependent upon Spain rather than the other way round.'[525] As a consequence of the invasion of the Soviet Union in June and the unexpected continuation of the campaign into autumn and then winter, Germany's economic dependency on certain Spanish goods had also grown enormously. German troops on the eastern front were in desperate need of

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[522]W. N. Medlicott, The Economic Blockade I, p.545.
[523]*Ibid.*, p.532.
[524]See previous chapter.
[525]D. Smyth, Diplomacy and Strategy of Survival, pp.197f.

clothing. Although wool, woollen products and hides had been supplied by Spain before, their import became more crucial than ever.[526]

With the attack on the Soviet Union, Nazi Germany had also deprived itself of a useful supplier of raw materials and of an important transport link to the raw material supplies of the Far East. Moreover, the American entry into the war in December of 1941 intensified these supply problems. The Nazis were forced to look for alternative suppliers and the Iberian Peninsula rapidly developed into the primary source of wolfram, or tungsten ore, a crucial ferro-alloy for the German armaments industry. For the next three years until summer 1944, this particular raw material would occupy centre-stage of German, and Allied, economic endeavours in Spain.[527]

In summer 1941, the Nazis anticipated increased supplies from Spain. Transport links with Spain were being improved and reorganized to make sure that `the supply of raw materials to Germany´ would be ensured `in any way possible.´ In August 1940 a transport office, Emilio Bauer, had been founded in Hendaye to concentrate solely on the traffic of goods from the Iberian Peninsula to Germany. To camouflage its activities it was eventually given a military cover in July of 1941, and its name was changed to Feldkommandatur 541, Biarritz, Transportbeauftragter in Hendaye. It continued with the organization of the transport of Spanish exports to Germany, on land via Hendaye, and on sea via its branch in the nearby port of Bayonne and then to Germany. At the same time, Laboremus S.A., previously a German leatherware company in Paris, was taken over by ROWAK to succeed the so-called SOFINDUS-Delegation Paris which had been operating there since the beginning of 1941. Laboremus´

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[526]PRO FO371/26955/13734, Letter, Hoare to FO, 2/12/1941; PRO FO837/735, Letter, MEW to Washington, 31/12/1941; W.N. Medlicott, The Economic Blockade II, London:1959, p.285.
[527]See next chapter.

tasks were to include the purchase or leasing of ships and railway waggons to improve the transport situation from Spain via occupied France. In fact, the company was able to commence with its work immediately as it `inherited´ twenty waggons and eight Dutch ships, operating from Bayonne, from its predecessor. A further ten small French ships were enlisted by the Bayonne branch of Laboremus in July of 1942. Finally, any traffic of goods - mainly fruit - via Vichy-France was organised by Schenker & Co, a transport company based in Berlin.[528]

Yet, all German efforts to improve land communications with Spain were being hampered by the existence of only one railway line from German-occupied France to Spain which crossed the border at Hendaye. Furthermore, matters were made worse by the fact that Spanish railroads were of a different gauge. In practice, this meant that all imports and exports had to be unloaded and reloaded at the Spanish border. Even if one managed to cope with this obstacle, the almost insurmountable problem of the lack of Spanish railway stock remained. Germany had not been able to help Spain to ease her problem of the destruction of 20,000 railway waggons and 1,000 engines during the civil war.[529] A German economic mission, probably representatives of the *Studiengesellschaft für Eisenbahnbau* which had been founded in early 1939 to examine Spanish railway needs, had arrived in Spain on 9 September 1940 to discuss the sale of unknown quantities of rolling stock and farm tractors to the Spanish government. However, the mission had apparently been recalled a week later. The German government then informed the Franco administration

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[528]BA R121/780, Letter, German Military Command in Paris to SOFINDUS (Paris), 3/7/1941; Letter, ROWAK to SOFINDUS, 16/8/1941; Letter, SOFINDUS to ROWAK, 23/10/1941. BA R121/832, Letter, ROWAK to von Jagwitz, 18/4/1941; BA R121/005301, Audit of the new transport organizations, December1941; BA R7/733, Shipping of important raw materials from Spain and Portugal, June 1941-June 1942.
[529]D. Smyth, Diplomacy and the Strategy of Survival, p.79.

that it had no waggons available for export.[530] Just over a year later, the situation had not improved. In November 1941, the German iron and steel industry had to report that it was not able to give positive replies even to the biggest orders for waggons and bridge construction coming in from Spain, Turkey, Rumania and Bulgaria.[531]

In view of the unsatisfactory situation on land, ROWAK/SOFINDUS became involved in a number of schemes to make more shipping available to Germany. In July 1941 Bernhardt was ordered by *Sonderstab V E.F.* of the RWM to organize *Aktion Hetze*, the acquisition of nine Spanish ships. To organize the purchases, Bernhardt duly added another company to `his empire´ and arranged the foundation of Comercial Maritima de Transportes S.A., or Transcomar, in Madrid. Finally, by September 1942, ten ships with a total tonnage of 4,642 metric tons were engaged in *Aktion Hetze*. Initially, these ships transported goods from Spain to Genoa. During the period November 1941 to September 1942, however, the ships, and their all-Spanish crews, were engaged in the transport of about 125,000 metric tons of supplies from Italy and Crete to the Axis troops in North Africa.[532]

Yet, as there was never enough tonnage available in a country which had lost ships with a total tonnage of about 200,000 metric tons during the civil war, Transcomar experienced an expansion of its activities. In late 1941, a plan

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[530]PRO FO371/24525/9912, Telegram, Hoare to FO, 11/9/1940, and comment by FO; FCO AA 5206/E307837f., Letter, von Jagwitz (RWM) to German Foreign Ministry, 17/4/1939.
[531]BA R7/3449, Report on German exports, November 1941.
[532]BA R121/777, OKM general information 1942-45, "*Aktion Hetze*", Memorandum, 19/7/1941; BA R121/770, Authorized representative for special tasks (Staff Veltjens), 3/11/1942; FCO AA1308/346695-700, Letter, Bernhardt to *Reichskommissar für die Seeschiffahrt*, 26/9/1942.
Veltjens, now colonel, was still indirectly involved in ROWAK´s activities in Spain. As `authorized representative for special tasks´ in the RWM he appeared to be supervising shipping purchases and arrangements, particularly in Spain, from Berlin (BA R121/769, Telegram, SOFINDUS to Veltjens at ROWAK, 21/8/1943, and meeting between Veltjens, Bernhardt et al., 27/5/1943; for British knowledge of Veltjens´ role, see PRO FO371/26900/9548, Letter, J.W.Nicholls (MEW) to FO, 21/8/1941).

surfaced in the OKM which involved the construction and purchase of twenty wooden ships from an official in the Franco administration, Joaquin Bau Nolla. The OKM hoped to use the ships within eight months time to supply Tripoli. While Transcomar arranged the deal, another newly founded company, Navegación Iberica S.A., or NISA, was to take control of the ships. A contract to that effect was signed by Bernhardt and Bau on 25 February 1942, and Bau immediately received a cheque for Pts 7.5 million, roughly 15 per cent of the total price. The ships, fourteen motor sailing ships with a tonnage of 600 metric tons each and six motor sailing ships with a tonnage of 350 metric tons each, were to be built to German specifications in Valencia and laid down within the next three months. However, the construction turned out to be hopelessly slow. Not only did the construction process suffer from a lack of skilled labour, but the British government got wind of the scheme because of increased exports of wood from Spanish Guinea. Although the Spanish government insisted that the wood was destined for the building of Spanish ships, British protests and the threat to refuse navicerts delayed the construction. While Bau had already pocketed Pts 29.5 million by early February 1944, only six ships of a total value of Pts 11 million were actually finished. Two of these, with a tonnage of 300 metric tons each, were the first to go into service for Germany on 29 April 1944, transporting fruit and ores to German-occupied France. The number of ships launched increased to seven by summer 1944. In the end, the OKM, which had spent Pts 43 million on the whole enterprise, unsuccessfully tried to sell the ships in Spain. However, in August 1945 the ships, now numbering fourteen, were still held by NISA.[533]

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[533]BA R121/771, Several reports and letters on the history of the Bau-deal, 1942-45; BA R121/799, Reports on Transcomar, undated; BA R121/1237, Statement of F. Bethke to the Allies, 18/8/1945; FCO AA1308/346695-700, Letter, Bernhardt to *Reichskommissar für die Seeschiffahrt*, 26/9/1942; MAE R2197/24, Various letters on construction of wooden ships, August and September 1942. For British knowledge about the construction of the ships, see PRO FO837/748, Enemy Shipping Intelligence Note No.142, 2/2/1944.

Transcomar's activities did not remain the only German attempt to increase shipping facilities in Spain. On 1 June 1942 SOFINDUS acquired the Spanish shipping company Compania Naviera Bachi S.A. in Bilbao. The company already owned six ships with a total tonnage of 32,400 metric tons, and the construction of a further steamer was immediately ordered. In fact, before SOFINDUS took control of the shipping company, it had already arranged for the secret transfer of five of the six Bachi ships from their duties on the Spain-South America route to new tasks in the Mediterranean. As with the *Hetze*-ships, the OKM intended to use the Bachi ships for military purposes. Yet, in actual fact, the ships were used to ship fruit, and particularly iron ore from ports on the Spanish east coast, such as Barcelona, Valencia, Cartagena and Sagunt, to Port Vendres and Sete in Southern France. Two Bachi ships were sunk by the Allies in the autumn of 1943, and the four remaining ships were withdrawn owing to Allied pressure on the Spanish government. Trade along the Spanish east coast, which also included some German ships, continued spasmodically until early August 1944, but was regularly disrupted by Allied air and naval attacks.[534]

Ironically, the danger of Allied attacks on transports destined for Germany had been a major reason to organise schemes such as the Bachi-deal. Not only did such plans serve to increase the amount of shipping tonnage available for the transport of Spanish goods, but with the use of Spanish front men the Nazis also intended to camouflage their shipping activities. In addition to the aforementioned schemes, Bernhardt developed a further elaborate plan to protect the export of Spanish goods to Germany. In 1942, SOFINDUS received permission to buy the German shipping company Verschlag. Under the

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[534]BA R121/769, Construction, purchase and sale of ships, 30/6/1943; BA R121/799, Reports on *Compania Naviera Bachi*; BA R121/1237, Statement of F. Bethke to the Allies, 18/8/1945; BA/MA RM 35II/62, 64 and 66 War diary of *Marinegruppenkommando West*, 1/1-31/5/1944, 1/7-31/7/1944 and 1/8-31/8/1944; PRO FO935/147, Enemy Merchant Shipping Activity January-June 1944, 26/7/1944.

codename *Lift*, Bernhardt then sold seven of the company´s ships to *Gerencia de Buques*, the shipping authority of the Spanish state. Subsequently, these ships, now under the protection of the Spanish flag, continued to transport goods for Germany in the Mediterranean. Finally, and with the same aim in mind - though officially as part-payment on the Bachi-deal - Bernhardt signed a contract with Juan Antonio Suanzes, ex-Minister for Trade and Commerce and now director of the new *Instituto Nacional de Industria* (INI),[535] on 9 September 1942. Under this deal a further seven German ships (with a total tonnage of 22,558), which had taken refuge in Spanish ports, were sold to the Spanish government.[536]

Such schemes to improve and camouflage Germany´s transport links with Spain were not only indicative of the importance the Nazis attached to some Spanish raw materials, but also of the growing threat of the Allied economic warfare campaign. The British government encouraged its navy to intercept Spanish ships if it suspected them to be employed in the transport of goods to Axis-occupied Europe.[537] If there was reason to suspect that a Spanish shipping company was working for Germany, Britain also put pressure on the Spanish government to stop such activities. If none of these steps helped, suspicious Spanish ships became targets for air and naval attacks.

At the same time that the British government tried to intensify its control over Spanish shipping activities, it was suddenly faced with the renewed possibility of a Spanish entry into the war. Germany´s invasion of the Soviet Union was

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[535]The Franco regime founded INI on 25 September 1941 to promote the industrialization of Spain (R. Tamames, *La República, La era de Franco*, Madrid:1981, p.404)
[536]BA R121/762, Memorandum by Bernhardt on sale of German ships, 16/6/1942; Contract, 9/9/1942; FCO AA1308/346695-700, Letter, Bernhardt to *Reichskommissar für die Seeschiffahrt*, 26/9/1942.
[537]See, for example, PRO FO837/737, Letter, British Embassy to MEW, 29/8/1941, for the interception of ships engaged in the transport of pyrites from Huelva to Bilbao and Pasajes for Germany.

welcomed by the Spanish regime, and particularly by the Falangists. In a statement to the correspondent of the Deutsche Allgemeine Zeitung in early July 1941, Serrano Suñer announced that Spain would now adopt a position of `moral belligerency´. This announcement had been preceded by the formation of the `Blue Division´, a `voluntary´ contingent of Spanish troops which was sent to Germany to be trained to fight on the Eastern Front. The Franco regime had finally been given an opportunity to assist Germany militarily and, simultaneously, help to destroy Communism, its arch-enemy. Franco was bubbling over with confidence. A speech he gave in July 1941 on the fifth anniversary of the Nationalist rising against the Spanish Republic reflected his buoyant mood.

> I do not harbour any doubt whatever ... about the result of the war. The die is cast, and the first battle was won here in Spain. The war is lost for the Allies. France and every people in the continent of Europe realize it. ... There is no mortal force that can change the destiny to come.[538]

Despite this disquieting development and an angry reaction by some British government officials[539], Hoare insisted on a continuation of British economic assistance for Spain. He, like many other foreigners living in or visiting Spain, was only too aware of the discrepancy between regime polemics and the reality of the true economic state of the country. While Spanish state finances and some sectors of the economy might be benefiting from increased German and British purchases, these sales alone would not solve Spain´s economic problems. Hoare firmly believed that Spain needed British help. Yet, the British government was conscious of the limits to its economic programme for Spain, if assistance by the United States was not forthcoming. In November 1941 Viscount Halifax, now British Ambassador in Washington, warned that the

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[538]D. Wingeate Pike, "Franco and the Axis Stigma", p.381 (quote from Franco´s speech taken from Vichy press).
[539]Eden declared in the House of Commons that it appeared that Franco did not desire further economic assistance (PRO FO837/735, Eden speech in House of Commons, 24/7/1941).

Resources of His Majesty Government are nearly exhausted and only active United States interest can enable us to maintain and develop the policy successfully pursued during past year.[540]

Franco´s inflammatory speech of July 1941 had certainly done nothing to alleviate the profound uneasiness of the US administration about the Spanish regime. The speech contained attacks on the United States and its economic policies which were `to crystallise the uncoordinated economic squeeze on Spain into a deliberately directed "strategy of gradual pressure".´[541] To the great consternation of the British government, the Roosevelt administration immediately discontinued all American Red Cross supplies to Spain, and also threatened Spain with a petroleum embargo. In response, London tried to convince Washington about the dangers involved in such harsh treatment of Spain.[542] Ultimately, British persistence seemed to have prevailed when, in November 1941, the United States decided to cooperate with the British government in a more constructive economic programme.[543] In reaction to Nazi Germany´s intense interest in such Spanish goods as wolfram, woollen goods, skins and iron ore, Britain - with the help of the USA after their entry into the war - had initiated a pre-emptive purchasing campaign in autumn 1941.[544] In February 1942, the US government proposed a joint pre-emptive purchasing programme for Spain which became the centre-piece of Allied economic activities in Spain for the following two years.[545] Nonetheless, the Roosevelt

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[540]PRO BT11/1517, Memorandum by Viscount Halifax, November 1941; W.N. Medlicott, The Economic Blockade II, p.285; see also W.N. Medlicott, The Economic Blockade I, p.548.
[541]D. Smyth, Diplomacy and Strategy of Survival, pp.187f.
[542]PRO BT11/1517, Letter, Viscount Halifax to FO, 23/7/1941.
[543]PRO BT11/1517, Letter, Viscount Halifax to FO, 12/11/1941; W.N. Medlicott, The Economic Blockade II, p.292; D. Dilks (ed.), The Diaries of Sir Alexander Cadogan 1938-1945, London:1971, p.338.
[544]PRO FO371/34840/447, Financial report No. 20 by H. Ellis-Rees, 31/12/1942.
[545]PRO FO837/754, Report of the Pre-emption Committee, 13/2/1942.

administration´s mixture of suspicion and reserve did not abate,[546] and reached its climax in the first half of 1944.[547]

From summer 1941 onwards Spain became increasingly engulfed in the economic warfare between the Allies and the Axis. It turned out to be an unequal `battle´ as Germany increasingly slipped into difficulties in her trade with Spain. The Nazis were to find themselves in a vicious circle. The military campaign in the East put enormous strains on the German economy. Consequently, the Nazis were faced with a growing shortage of raw materials. While Spain remained a useful source, its government insisted on manufactured goods, such as machinery and armaments, in return. Yet, Germany could only fulfil part of such requests because of the increased demands of its own economy and its troops. As a result of the dissatisfaction of the Spanish government over slow payment for Spanish raw materials and insufficient supplies of German goods deemed essential by Madrid, Germany´s import of important Spanish goods was regularly disrupted. Between 1941 and 1944 the German embassy in Madrid and SOFINDUS were involved in almost constant negotiations with the Spanish government, and particularly with Carceller.[548] While German representatives in Spain were trying to optimise Spanish exports to Germany, they also had to fend off the aggravating economic warfare campaign of the Allies. As the particularly significant case of the `wolfram rush´ demonstrates,[549] Allied competition led to enormous price rises for goods coveted by Germany. Germany´s financial weakness was

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[546]See, for example, PRO FO837/744, Minute sheet by Mark Turner, 24/12/1941; PRO FO837/749, Letter, Hoare to FO, 4/1/1942; PRO FO837/756, Letter, Halifax to MEW, 11/3/1942

[547]See next chapter.

[548]Carceller, according to Paul Preston a `wily and unscrupulous Falangist businessman´, developed into an excellent tactician for his own and Spain´s cause. When Franco made Carceller minister in September 1940, Hoare was quite impressed about his "independent" attitude. However, independence really meant the ability to play Germany and the Allies off against each other (P. Preston, "Franco and Hitler", p.7; S. Hoare, Ambassador on Special Mission, pp.98f.).

[549]See next chapter.

mercilessly revealed by a campaign which would bring even the Allies to the brink of exhaustion of their financial reserves in Spain.

As a result of mounting problems, the mood of German officials involved in operating the economic relationship with Spain often consisted of a mixture of anger, impotence and disappointment. The development of the SOFINDUS-subsidiaries certainly did little to improve matters. Temporarily closed down in 1939-40, most SOFINDUS mining companies had to be reactivated after the defeat of France. At the end of 1940, an audit by the Deutsche Revisions- und Treuhand-AG of these companies revealed a grim financial picture. It concluded that while Germany had invested Pts 69.1 million in developing a mining empire in Spain, 76 per cent of this sum had to be declared a loss. The auditors did not expect a marked improvement in the future and recommended the application of rationalization measures. From a purely economic point of view, they argued, Germany should only hold on to its wolfram and lead mines. Production, despite an overall increase, was still very modest in 1942, and continued to remain so until the end of the war. (see table 22)

Table 22: PRODUCTION OF GERMAN MINES IN SPAIN (in metric tons)

	1940	1941	1942
Wolfram	122	114	130
Ambligonite	91	104	180
Lead	1,370	626	990
Iron ore	23,000	28,000	36,000

Source: BA R7/738, Audit of the Mining Group of ROWAK, 18/10/1943.

However, the auditors were aware that the German government was keen on holding on to more mining properties than economic sense

recommended.[550] In fact, ROWAK immediately reacted to the very pessimistic audit. In April 1941, it decided to close down all mining enterprises except `all wolfram mines because of their importance for the war effort, and those iron ore, lead and tin mines which were making a profit by producing for the Spanish domestic market.´[551]

This decision, however, was not strictly applied and the mining of other raw materials, e.g. ambligonite, was continued.[552] In fact, ROWAK/SOFINDUS acquired new mining interests in the increasingly important fluorspar sector in 1943.[553] ROWAK/SOFINDUS believed that the purchase of two companies, Fluoruros S.A., which accounted for about 80 per cent of Spain´s fluorspar production in early 1943, and Importadora de Minerales S.A.E. (Imsae), would give Germany an economic advantage against the United States which were revealing a growing interest in Spanish fluorspar in late summer of 1942. Before its acquisition by SOFINDUS Fluoruros had indeed sold its whole production of 30,000 metric tons to the United States. The ensuing competition between the United States and Nazi Germany led to a rapid development on the fluorspar market with the United States even offering $300,000 to Fluoruros if the company refused to sign any new contracts with Germany. Yet, unknown to US government officials, SOFINDUS was already negotiating the acquisition of Fluoruros in early 1943, while US officials were again trying to acquire its whole production.[554]

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[550]BA R121/005301, Special audit of the German economic organisation in Spain, December 1941.
[551]BA R121/832, 7th meeting of the ROWAK advisory committee, 7/4/1941.
[552]Spanish ambligonite accounted for about 90 per cent of Germany´s total production of lithium. Lithium was particularly important for the production of accumulators for submarines and in the welding of aluminium (K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, p.373).
[553]Finer grades of fluorspar, or fluorite, is used for enameling iron, the manufacture of opaque and opalescent glasses and the production of hydrofluoric acid. Inferior grades are used as a flux in steel-making and for foundry work (Rutley´s Elements of Mineralogy , p.229).
[554]BA/Pots 94, Sammlung. II. Weltkrieg/16/663063, Report by Dr. Heinz Bouteiller, special representative of the RWM for the import of fluorspar, 28/10/1942 and *ibid.*/663043-5, Letter, *Industrie- und Handelskammer Essen* to *Reichsstelle für Steine und Erden*, 22/4/1943.

By purchasing both fluorspar companies, ROWAK/SOFINDUS prevented a similar price development as occured with wolfram. Officially, both companies were bought by Compañia Española Somar, S.A. (Somar), a company which had been founded by SOFINDUS in March 1943. According to Bethke, Somar was dressed out `with Spanish dummy directors [*Strohmänner*] to organize wolfram mining along primitive lines.´ In fact, the foundation of the company was a reaction to a new Spanish mining law of 21 September 1942. The new law had stated that the right to register wolfram and tin claims could not be undertaken in zones specially reserved by the Spanish state. In areas outside these designated zones applicants had to be either Spaniards or Spanish companies whose capital was controlled completely by Spanish citizens.[555] The Franco regime had clearly become more critical about foreign acquisitions of Spanish mining rights. However, it reserved itself the right to grant special mining permits to foreigners. Generally the Allies found themselves in a similar position to Germany, and they reacted in very much the same way. Using their own contacts in Spain, the Allied embassies quickly arranged for the foundation of a Spanish cover company, Sociedad Financiera e Industrial (SAFI), which was modelled on both SOFINDUS and Somar and was put in charge of similar activities, particularly in the wolfram sector.[556]

In 1943, and inspite of the new mining law, the Nazis were intent on increasing Germany´s presence in the Spanish mining industry. Not only did ROWAK/SOFINDUS involve itself with Spain´s fluorspar production, but it also attempted to branch out into three other mining sectors. At the beginning of 1943, the RWM ordered ROWAK to acquire Spanish cobalt mines which were to be run jointly by the SOFINDUS´ mining companies in Spain and the

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[555]BA R121/1237, Statement of F. Bethke to the Allies, 18/8/1945; BA R121/832, Express decisions by ROWAK advisory committee, 6/4/1943 and 24/9/1943; BA R121/858, Letter, SOFINDUS to ROWAK, 15/9/1943.
[556]PRO FO837/766, Letter, Yencken to MEW, 28/9/1942; BA R7/735, Hiros (Berlin) to *Fachabteilung Ferrolegierungen*, 25/6/1943; K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, p.234.

German *Kobaltvereinigung*. Then, in March 1943, ROWAK found itself in charge of an attempted expansion into Spain´s bismuth sector. Finally, coinciding with the bismuth plan, ROWAK concluded a contract with Sachsenerz Bergwerksgesellschaft m.b.H. to increase Germany´s stake in the Spanish lead sector. While there is no information on the further development, let alone success, of either the cobalt or the bismuth scheme, the lead scheme proved to be unsuccessful for similar reasons as several of the previous failures: owing to the state of the mines acquired, expert opinion tended to agree that a development period of at least two years was needed before there could be any regular lead production.[557]

In hindsight, Germany´s experience with her expansion into the Spanish mining sector was generally disappointing for a number of reasons. Obviously, the war had thwarted ROWAK/SOFINDUS´ calculations. The development of acquired mines was halted during the `phoney war´ period, and even afterwards Spanish and German shortages of fuel, machinery and skilled labour were to slow down mining operations in Spain. Yet, even ideal conditions would not have immediately solved the fundamental problem of the poor state of many mines at the time of acquisition. The Allied blockade and an increasing number of attacks against transport lines after `Operation Torch´ - the Allied invasion of North Africa in November 1942 - exacerbated the slow-down of the development of mines by preventing the arrival of required material in Spain. At the same time, they increased German financial losses by affecting the amount of raw materials exported to Germany.

The most serious problem, however, which affected all SOFINDUS subsidiaries in Spain, sprang from Germany´s financial malaise. After the initial

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[557]BA R7/734, Letter, RWM to ROWAK, 22/1/1943; BA R7/737, Letter, Bethke to *Reichsstelle Chemie*, 25/3/1943; BA R7/736, Letter, ROWAK to Bethke, 21/7/1943.

costs of purchasing and preparing Spanish mines and companies, the Nazis were faced with constant further financial demands thereafter. A number of factors help to explain these financial problems. Most SOFINDUS companies suffered from an inflated administrative apparatus which was heavily criticized by the auditors.[558] In addition, some plans, such as Agro´s soy cultivation scheme in 1939-40, turned out to be financial black holes. It is therefore not surprising that, in 1942, the Reich Finance Ministry had to write off RM 5.5 million of its RM 10 million loan to ROWAK in order that ROWAK could write off part of the book value of its Spanish subsidiaries.[559] The economic policies of the Franco regime only exacerbated ROWAK/SOFINDUS´ financial position. Spanish insistence on payment in foreign currency, or at least in equivalent amounts of German goods, caused growing problems after 1940. On top of that, the Allied pre-emption campaign led to price rises, particularly in the wolfram sector, which were responsible for further financial worries. Eventually, Germany´s financial problems in Spain reached such proportions that the Spanish government felt compelled to step in and pay RM 100 million against its civil war debt in the autumn of 1943.[560] As this decision was mainly taken in reaction to Germany´s forced withdrawal from the wolfram market, it will be discussed in more detail in the following chapter.

The Spanish payment of RM 100 million in late 1943 remained a one-off `gesture´ to help Germany overcome the most desperate moment in her economic relationship with Franco Spain. In fact, the years preceding this payment had been a constant struggle against the aforementioned growing deficit with Spain. The Spanish government was constantly demanding more goods from Germany. In January 1942, this even resulted in the curious

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[558]The slow pace of Spain´s administration and bureaucracy also contributed to the problems of SOFINDUS as it took a long time to process export licences (BA R7/738, Letter, Montana to SOFINDUS, 31/1/1942).
[559]BA R121/1237, Statement of F. Bethke to the Allies, 18/8/1945.
[560]BA/MA RW19/437, War Diary No. 6 of OKW *WStb (Ausl) 2.Abt.*, 1/10-31/12/43.

situation that the German government was relieved to hear that the USA had offered to increase American exports to Spain. At least, German officials hoped, this would take some pressure off Germany - as long as any increased trade between the USA and Spain did not impinge on Spanish exports to Germany, particularly of wolfram, lead and zinc blende.[561]

Yet, even if Spain was able to import more goods from other countries, this would clearly not bring about a solution to Germany´s problems. To improve matters, the Nazi regime turned its attention increasingly to the export of military goods, an area where it was certain to kick at an open door. After all, Franco´s government was dominated by military men and all three defence ministries (air, navy and army) together were consistently responsible for more than 45 per cent of the state´s consumption. (see table 23)

Table 23: DEFENSE EXPENDITURE AS PERCENTAGE OF SPANISH STATE CONSUMPTION

Year	%	Year	%
1935	22.4	1942	46.9
....	...	1943	63.0
1940	51.7	1944	54.2
1941	52.0	1945	53.2

Source: A. Carreras, "Depresíon económica", in J.L. Garcia Delgado, *El primer Franquismo*, p.20.

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[561]BA/MA RW19/246, Meeting in the German Foreign Ministry, 26/1/1942; ADAP, E, I, doc.165, pp.294-6, Footnote 7 to a telegram, Stohrer to German Foreign Ministry, 24/1/1942; see also K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, p.89.
In April 1942 Germany and Spain signed an accord which allowed Spain to maintain its trans-Atlantic maritime traffic. Spain agreed to supply the German embassy with information on the cargo, destination, etc. of Spanish ships sailing overseas. If sufficient information was supplied, the ships involved were protected from German naval interference. Yet, the German government could not give an absolute guarantee against possible incidents and it also reserved itself the right to annul the accord, should changes to the political or military situation take place (A. Viñas, *Política Comercial Exterior*, pp.355f.).

Apart from the wolfram question, economic negotiations between Germany and Spain in 1941, 1942 and 1943 were largely dominated by Spanish demands for German war *matériel.* In contrast to 1940-41, when, admittedly limited, arms supplies were mainly regarded as a means to prepare Spain for an entry into the war, the German reaction in 1942 and 1943-44 was largely dominated by business factors. Officially, the German Embassy continued to emphasize political and military-political reasons in its discussions with Spanish government officials.[562] Increasingly, however, Germany´s need for certain Spanish raw materials, and the need to combat her trade and clearing deficit, came to form the background to her willingness to supply war *matériel.* In fact, trade with Spain was not unique in this respect as Germany used war *matériel* as a bargaining factor in negotiations with most other European neutrals. Clearly, the Nazis did not find it easy to release war *matériel* at a time when their own needs were growing.[563] Yet, the Nazi regime had to consider that without sufficient imports of important raw materials Germany´s war effort would also be endangered. `The central idea behind the decision to supply war *matériel* to Spain was to create - as far as militarily possible - counter-supplies for important Spanish supplies and services.´[564] In fact, the condition `militarily possible´ meant that Germany regularly supplied far fewer arms than Spain´s often heavily exaggerated requests demanded.[565] Furthermore, the German government usually proved to be very reluctant to accommodate Spanish appeals for the transfer of German war *matériel* production to Spain. This transfer meant either the use of Spanish facilities to produce war *matériel* for Germany or the construction of new production sites with the help of German expertise. Occasionally, it quite simply implied the handing over of German

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[562]BA/Pots 09.01/68455, Memorandum by Weizsäcker, 26/3/1943.
[563]BA R7/3280, Germany´s Foreign Trade in 1943, Report by Dr. Niebuhr, 14/10/1944.
[564]BA/MA RW19/442, Report of official in charge of VII b, in War Diary No.2 of OKW *Wi Amt Wi Ausl. VII,* 1/7-30/9/1942.
[565]In November 1942, Bernhardt had a conversation with Carceller during which the Spanish minister declared that Spain immediately needed war *matériel* of a total value of RM 1 billion (ADAP, E, IV, doc.186, pp.325f., Report by Likus (AA), 16/11/1942).

weaponry plans and designs to Spanish officials.[566] Several reservations influenced Germany´s lack of interest in these schemes. Firstly, an increase in Spain´s war *matériel* production would not alleviate Germany´s financial problems. Ultimately, these products would have to be paid for, too. In addition, Spain would have to be supplied with some raw materials and machinery to increase production. Obviously, this would only create more problems for Germany. Secondly, even if these problems were solved, worries would remain about the quality of Spanish production. Finally, considering the corruption and rivalries amongst Francoist officials, there was no guarantee that German construction plans would not be passed on to the Allies, or that the Allies would not start buying up Spanish war *matériel* produced with German help.[567] It is therefore not surprising that very little evidence exists about such transfer deals. The aforementioned construction of ships in Spain must be regarded as one of them.[568] Furthermore, in 1942, the German navy granted Spain construction copy rights of a total of about RM 2 million.[569] One of the few contracts on Spanish arms production for Germany involved the production of Spanish pistols for Germany which commenced in 1943. However, part of these deliveries had to be transported back into Spain after the Allied invasion of France.[570]

In general, the Nazi regime preferred the export of German war *matériel* to a transfer of production to Spain. War *matériel* negotiations and deliveries were to experience a surge in 1942. This development became part of a new round of economic negotiations between Germany and Spain. Until then, the basis of

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[566]BA/MA RW19/246, Note on Spanish requests for war *matériel* orders, 14/3/1942
[567]BA/Pots 09.01/68454, Letter, Wiehl to German Embassy in Spain, 16/5/1942; BA/MA RW19/436, Weekly report 5-10//1943, 16/7/1943 and Letter, RWM to OKW *WStb*, 4/8/1943, in War Diary No.5 of OKW *WStb (Ausl.) 2.Abt.*, 1/7-30/9/1943; FCO AA1308/347023, Letter, Enge (German Embassy in Madrid) to German Foreign Ministry, 25/9/1942.
[568]See pp. 172f.
[569]G.Thomas, *Geschichte der deutschen Wehr- und Rüstungswirtschaft*, p.347.
[570]BA/MA RW45/49, War Diary No.?, 1/10-31/12/1944.

the economic relationship between the two countries had still been the informal accords reached during the visit of the Wohlthat delegation in 1939/40, particularly the agreement of 22 December 1939. Yet, from late 1941 onwards the Spanish government pressed at increasingly shorter intervals for a resumption of economic negotiations to clarify the trading relationship between Spain and Germany. Although Stohrer agreed with the Spanish demand for negotiations, the general mood in the German government was opposed to it. Ribbentrop did plan to send a delegation in late February 1942; yet, generally, the Nazi regime feared the possible demands Spain might make.[571]

In the end, however, the German government was forced to send a delegation to Spain. The Franco regime had used its best weapon well. Although German concerns about its trade deficit with Spain contributed to the commencement of negotiations at the end of July 1942, the decision to negotiate was largely triggered by major German worries about a noticeable Spanish restraint in issuing export licences and the need to agree on future trade quotas.[572] Once started, the negotiations suffered from frequent interruptions. Franco´s dismissal of Serrano Suñer and his re-appointment of the more anglophile General Jordana as Foreign Minister in September 1942 resulted in some delay[573], particularly as Jordana adopted dilatory tactics when it came to German demands. On the one hand, Jordana was not really willing to accept Germany´s massive deficit in her trade with Spain, on the other he was not courageous enough to risk a complete affront. The Spanish delegation was therefore instructed to confront its German counterpart with demands. When the Germans believed these to be excessive, the negotiations

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[571]K. - J. Ruhl, *Spanien im Zweiten Weltkrieg*, pp.84ff.
[572]BA/MA RW19/433, War Diary No. 2 of OKW *Wi Amt Wi Ausl. III/IV*; 1/7-30/9/1942 (see there for a list of Germany´s requests); BA/MA RW45/17, Report by Colonel Drews, liasion officer to the RWM, 9/9/1942; FCO AA3889/E048660-2, Memorandum by Wiehl, 9/11/1942.
[573]See ADAP, E, III, doc.308, pp.526-9, Telegram, German Embassy in Spain to German Foreign Ministry, 24/9/1942.

remained deadlocked. On top of the differences over Spanish demands and Germany's trade deficit, the successful Allied landings in North Africa in November proved to be a further distraction. Only when Hitler finally decided to order his delegation to be more accommodating towards the Spanish government, did the negotiations come to a successful conclusion.[574]

A new interim trade agreement was signed on 16 December 1942, the first formal agreement on Spanish-German trade since 1937. It was supposed to cover the period from 1 December 1942 until 30 November 1943. Generally, the agreement was based on the possibility of RM 250 million of German supplies. In accordance with the agreement both sides accepted a special arrangement for the period 1 December 1942 to 28 February 1943. During this period Spain would increase Spanish credit facilities to Germany from RM 40 million to RM 130 million. Of this amount, RM 100 million were made available as payment for Spanish exporters while the remaining RM 30 million were intended for the export of Spanish oranges. Germany, on the other hand, agreed to export RM 60 million of goods to Spain during the same period. After the initial three months, Germany would then have to bring down its deficit to a maximum of RM 70 million by 30 November 1943. Both sides agreed that a concerted attempt should be made to achieve a balanced book in the trading relationship between the two states. Yet, it was also acknowledged that changes to the agreement might become necessary if additional supplies, particularly of war *matériel* , affected this objective of the agreement. Further extensive details to the agreement included a list of all German requests for the period of the agreement as well as a list of specific German requirements of Spanish non-ferrous metals, such as wolfram, vanadium, lead and zinc blende, to be used in the production of German war *matériel* for Spain.

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[574]On the Spanish attitude during the negotiations, see A. Viñas, *Política Comercial Exterior*, pp.396ff.

In the interim agreement of December 1942 Germany also promised to finalize all details on an earlier war *matériel* deal between the Brünner Waffenwerke and the Franco regime. In spring of 1942, Brünner Waffenwerke had agreed to supply 5,000 light and 1,000 heavy machine guns with ammunition at a total value of about RM 30 million without having consulted German government officials about the availability of adequate amounts of raw materials. Initially, the German government was reluctant to agree to the transaction. Yet, the recognition of the usefulness of the deal in the economic negotiations with Spain, and an apparent Spanish willingness to supply required raw materials, swung the German government around. Above all, however, it was the pressure of the clearing deficit with Spain which led the German government to agree to the deal despite some misgivings about the way such exports impinged on the needs of the German army.[575] The German air force and navy had already agreed upon new supply contracts with their Spanish counterparts during the summer of 1942 and, at a value of about RM 30 million and RM 10 million, respectively these substantial contracts were eventually made part of the economic agreement.[576] Finally, the list of required raw materials was also intended for the production of German goods which were to be used in specific Spanish industrial projects, e.g. Siemens´ involvement in the river control of the Ebro, and in the general production of German exports to Spain.[577]

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[575]BA/Pots 09.01/68454, Telegram, Wiehl to German Embassy in Spain, 16/7/1942; BA/MA RW19/442, War Diary No. 2 of OKW *Wi Amt Wi Ausl.VII*, 1/7-30/9/1942; BA/MA RW19/446 and 447, War Diaries Nos. 6 and 7 of OKW *WStb (Ausl.) 3.Abt.*, 1/10/1943-31/3/1944; BAlPots 09.01/68454, Telegram, Becker (German Embassy in Madrid) to German Foreign Ministry, 14/4/1943.

[576]As part of the air force deal the German Air Ministry even offered Spain 500 metric tons of aluminium despite having rejected a similar request by Japan shortly before (BA/Pots 09.01/68454, Memorandum by Wiehl, 26/9/1942).

[577]BA/MA RW19/434, War Diary No. 3 of OKW *Wi Amt Wi Ausl. III/IV*; 1/10-31/12/1942 (contains Trade Agreement + Enclosures to the agreement); BA/Pots 09.01/68454, Memorandum by Wiehl, 1/10/1942; on the trade agreement see also K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, pp.164f. and A. Viñas, *Política Comercial Exterior*, pp.399f.
A deal on 250 anti-aircraft machine guns with ammunition had already been concluded in March of 1942 (BA/Pots 09.01/68454, Letter, Dr. M. Prince Hohenlohe to Wiehl, 10/10/1942).
On Siemens´ involvement in the Ebro-project, see BA/Pots 09.01/68454, Letter, Stohrer to German Foreign Ministry, 21/5/1942.

As a result of the new agreement, the Franco regime approached the German government with renewed zeal about the question of war *matériel* deliveries. Aware of its disadvantageous trading position, the German government felt the need to be more accommodating towards Spain, particularly as Germany´s trade deficit with Spain was worsening in the first half of 1943. In fact, while Spain fulfilled her part of the December agreement for the period to 28 February 1943, Germany supplied less than a third of the promised RM 60 million of exports.[578] Threatened with delays in the exportation of vital Spanish goods to Germany, the Nazi regime had to ensure a dramatic improvement in the supply of German goods to Spain. Consequently, 1943 saw the peak of war *matériel* supplies from Germany to Spain, their value taking up one fifth of AGK war *matériel* exports during that year. (see table 24)

Table 24: WAR MATERIAL EXPORTS BY AGK 1939-1943, in mill. RM

	1939	1940	1941	1942	1943
Total Exports	469	708	727	1250	1304
to Spain	0.08	0.9	5.4	76	258
to Italy				135	254.6
to Portugal	0.01	0.06	28	1	36.3

Source: O. Dankelmann, *Die imperialistischen Großmächte und Spanien während des zweiten Weltkrieges*, Diss. Halle 1966, p.148, cited by K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, p.396.

Shortly after the December agreement had been signed, the Spanish ambassador in Berlin commenced a new round of negotiations when he passed on his government´s request for 100 Messerschmidt 109s and 25 Junker 88s. From 15 January 1943 preliminary negotiations on Spanish war *matériel* requests were undertaken in Berlin.[579] This preliminary visit led to new negotiations which started in earnest on 15 March with the visit of a Spanish

[578]A. Viñas, *Política Comercial Exterior*, p.406.
[579]K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, p.223.

delegation led by General Martinez de Campos.[580] During its two week visit, the delegation was received by General Thomas, to whom Martinez de Campos represented the Spanish list of requests. Divided into three urgency levels, it contained specific amounts of war *matériel*. The execution of urgency level I within three to four months was precondition for any negotiations on urgency levels II and III. Urgency level I contained demands for 250 fighter aircraft, 2421 anti-aircraft guns, 4 reconnaissance seaplanes, 6 speedboats, 8 Diesel engines, 120 torpedoes, 2000 depth charges and various communication equipment. Although the OKW was apparently shocked about the list, some members of the German delegation regarded the demands as militarily justified.[581] Hitler, whom Martinez de Campos met on 18 March, made clear that he would have to know whether Spain´s requests for war *matériel* were to be treated as purely commercial - that is, arms supplies as an important trading factor - or whether they would be of a political-military nature. If the latter was the case, then Germany would expect some kind of Spanish commitment to defend itself against any Allied military intervention. Otherwise, Hitler argued, he could not justify transferring arms away from his own, and other Axis, troops. While, in November 1942, the Spanish government had emphasized the need to defend itself against a possible Allied invasion,[582] Martinez de Campos´ was evasive as he put the Spanish position somewhere between `commercial´ and `political-military´. Despite this somewhat vague reply, Hitler expressed his willingness to help Spain.[583]

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[580]BA/MA RW5/v.429, Reports on "*Programm Bär*", 6/1/1943 and 15-16/3/1943; BA/MA RW19/444, War Diary No.4 of OKW *WStb (Ausl.)*, 1/1-30/6/1943; Thomas, p.380.
[581]On the list and German reactions, see K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, pp.225f.
[582]See K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, pp.162f.
[583]ADAP, E, V, doc.226, pp.431-5, Memorandum on the conversation between Hitler and Martinez de Campos on 18 March 1943, 20/3/1943.

Finally, the *Wehrwirtschaftsstab* considered the list and presented its reply to the Spanish delegation which took it back to Spain.[584] Although the Spanish government was somewhat disappointed at the German list of offers[585], it still came to form a crucial element of the economic negotiations in Madrid between German government representatives and their Spanish negotiating party. On 5 May a German delegation led by Ribbentrop´s envoy Eisenlohr took up official negotiations with the Spanish government on the question of war *matériel* prices as well as Spanish services in return. The German government tried to compensate the inflated prices it had to pay for Spanish wolfram by demanding increased prices for its supplies of war *matériel.* These were to exceed 1939 prices by at least 200 per cent, with the Foreign Ministry demanding an increase of at least 300 per cent and the RWM insisting on an even higher surcharge of 400 per cent.[586] During the negotiations the German delegation put the total value of arms supplies at RM 625 million, more than three times their 1939 value. According to Ruhl it was particularly the RWM, instigated by Bethke and Bernhardt, which badgered the German delegation to press for high prices. The Spanish reaction proved to be predictable. The Spanish government, including Franco himself, was highly indignant about such pricing decisions.[587] Owing to the rejection of the Franco regime to accept inflated German prices, Germany´s negotiating position clearly deteriorated over the following weeks. Both sides agreed that a solution to the pricing problem had to be found. A Spanish-German subcommission was therefore formed to examine

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[584]For details of Germany´s offers to the Spanish army, navy and airforce, see BA/MA RW19/444, Enclosure 8, 27/3/1943, in War Diary No.4 of OKW *WStb (Ausl.) 3.Abt.*, 1/1-30/6/1943.

[585]BA/Pots 09.01/61164, Memorandum by Wiehl, 5/4/1943.

[586]Defending its demand for a 300 per cent surcharge, the German Foreign Ministry argued that Turkey had accepted such price increases (BA/Pots 09.01/68454, Memorandum by Schüller, 8/3/1943). See also ADAP, E, VI, doc.119, pp.207f. on Ribbentrop´s anger about Franco´s attempt to lower German prices (Telegram, Ribbentrop to German Embassy in Madrid, 28/6/1943).

[587]K.- J. Ruhl, *Spanien im Zweiten Weltkrieg*, p.231; see A. Viñas, *Política Comercial Exterior*, pp.406ff., footnote 254, for a defense of the Spanish rejection of Germany´s attempted price increases.

the question of prices. Its eventual recommendations favoured the position of the Spanish government. Indeed, when it came to the eventual economic agreement, which was signed on 18 August 1943, the Spanish government had reduced Germany's attempt at a surcharge to about 20 per cent. (see table 25)

Table 25: REDUCTION IN THE PRICE OF GERMAN WAR MATERIAL SUPPLIES TO SPAIN, in RM

	Price demanded by Germany	Accord reached by subcommission
A) Material already received		
Army Ministry	45,845,086	21,073,100
Navy Ministry	19,343,900	4,948,200
Air Ministry	50,057,954	13,268,425
	115,246,940	39,289,725
B) Remaining deliveries		
Army Ministry	138,221,873	90,929,530
Navy Ministry	218,117,385	70,805,293
Air Ministry	153,939,630	15,484,435
Subtotal	510,939,630	177,219,078
Total A+ B	625,525,828	216,508,803
Total Reduction of Prices		413,017,025

Source: A. Viñas, *Política Comercial Exterior*, p.407, based on MAE R2066/E4.

The new agreement was an extension to the economic agreement of 16 December 1942 and ran until 30 November 1944. In total, the value of expected German exports amounted to RM 516.5 million. RM 300 million were allocated to `normal' German exports such as machinery, fertilizers, and coal. The value

of the remainder, RM 216.5 million, was allocated to supplies of German war *matériel,* codenamed *Programm Bär.*[588]

In fact, the first stage of this `programme", the so-called *Sofortprogramm,* had been put into motion before the economic negotiations came to a conclusion. From 27 May until the end of June 1943, 65 waggons with air force material and 293 waggons with other war *matériel* had left Germany for Spain. 15 fighter planes had already arrived in Spain, a further ten fighters were to follow shortly. With a contract between Brünner Waffenwerke and the Spanish government on about Pts 75 million of arms supplies, the remaining part of *Programm Bär,* the*Restprogramm,* was then set into motion on 28 June 1943.[589] The whole of the *Restprogramm* was supposed to comprise a total of about a further 670 waggons of war *matériel* for Spain.[590] By the end of 1943, transports were still running according to plan, and, in value terms, about half of the agreed supplies had reached Spain. Yet, in early 1944, the pace of transports slowed down. By the time Germany had to abandon rail transports to Spain in August 1944, the total value of *Programm Bär* had only increased by another RM 20 million to about RM 135 million. Negotiations then commenced on how to continue *Programm Bär* and plans were drawn up to transport goods via Switzerland or by air.[591] The last available report on *Programm Bär* indicates that, by December 1944, Spain had received supplies worth RM 158.4 million of which only RM 5.2 million had not yet been paid.[592]

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[588]BA/MA RW19/445, War Diary No.5 of OKW *WStb (Ausl.) 3. Abt.*, 1/7-30/9/1943; FCO AA3205/D697664-5, Additional Agreement to the German-Spanish Economic Agreement of 16 December 1942, 8/8/1943.
[589]BE DE-IEME.*Secretaría Caja* 167, Memorandum, 5/8/1943.
[590]ADAP, E, VI, doc.66, pp.114f., Memorandum by Clodius, 29/5/1943; BA/MA RW5/v.429, Report on *Programm Bär,* 25/6/1943.
[591]BA/MA RW19/446-449, War Diaries Nos. 6-9 of OKW *WStb (Ausl.) 3.Abt.*, 1/10/1943-30/9/1944.
[592]BA/MA RW19/381, Weekly report by OKW *WStb (Ausl.) 3/IIIc,* 14/12/1944.

Despite the increasing needs of the German war machine in early 1944, the Nazis were prepared to offer Spain another war *matériel* supply programme alongside the on-going *Programm Bär*. In a lengthy letter to the German Foreign Ministry in October 1943, Dieckhoff, the German ambassador at Madrid, had discussed the necessity of new arms supplies to Spain. The Spanish service ministries had again expressed their desire to increase their purchases of German war *matériel*. Dieckhoff forcefully supported these requests. He argued that Spain might otherwise purchase weaponry from the Allies who were already supplying Portugal with war *matériel*, including German booty weapons. Moreover, he pointed to the continuing trade and clearing problems with Spain which could only be alleviated by exporting arms to Spain. In fact, Dieckhoff was convinced that the capacity of Germany´s war *matériel* production would allow for such exports without endangering the German supply situation.[593] Dieckhoff´s intervention on behalf of the Spanish government was immediately followed up by the Spanish ambassador at Berlin who approached von Steengracht of the German Foreign Ministry with demands for 100 Messerschmidt 109 and 25 Junkers Ju 88 planes, in fact a repeat of an earlier demand.[594] As with Dieckhoff´s report, the ambassador pointed to the Portuguese case and supplied the Ministry with a secret list of British arms supplies to Portugal.[595] Von Steengracht´s memorandum and the secret list were then passed on to Hitler who reacted in a matter-of-fact way to the information. According to his aide Hewel:

> he first wants to know, what the Spaniards could and would supply to us. The whole matter is purely business. We cannot and do not want to prevent the Spaniards from buying arms from our enemies. At present, we cannot supply everything. This does not mean that the Spaniards would use these weapons [of the Allies] against us, just as little as we expect of the Spaniards to fight with our weapons against the *Angelsachsen*. Before he continues to occupy himself more with the matter, he would like to know what Spain was going to supply.

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[593]BA/Pots 09.01/68455, Letter, Dieckhoff to German Foreign Ministry, 31/10/1943.
[594]See page X.
[595]BA/Pots 09.01/68455, Memorandum by von Steengracht, 5/11/1943.

As on previous occasions, when German government officials had emphasized the economic usefulness of such deals, Hitler reiterated the economic factor. He was not worried about Allied attempts to sell war *matériel* to the Iberian Peninsula, particularly as he was not really impressed by the secret list on Portuguese receipts of war *matériel.*[596] Yet, despite the *Führer´s* casual reaction to Spanish requests, Germany needed to continue war *matériel* supplies to Spain. Germany´s increasingly precarious military situation, combined with a much tougher American stance towards Spain, led to a gradual process of detachment in Spain´s relationship with Germany. This affected the economic relationship between the two countries, particularly as the export of German goods to Spain had still not reached a satisfactory level. Germany, on the other hand, had worked out a new purchasing programme of Spanish goods in late 1943 which was to run until 30 November 1944 and amounted to a total expenditure of RM 335 million. This included the aforementioned Spanish payment of RM 100 million on its civil war debt, about RM 70 million as a remaining payment on the on-going war *matériel* deliveries, RM 50 million as proceeds from normal German exports to Spain and RM 15 million as a permitted clearing extension. In late December 1943, the Foreign Ministry thus calculated that the German government would be short of RM 100 million to complete its planned purchasing programme unless it cut its anticipated purchases. Two purchasing plans were therefore drawn up, *Plan A* to account for the existing RM 235 million (with wolfram taking up about RM 127 million), *Plan B* for the missing RM 100 million. It was concluded that the acquisition of the goods listed under *Plan B* could only be achieved with further war *matériel* deliveries.[597]

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[596]BA/Pots 09.01/68455, Report by Hewel for Ribbentrop, 18/12/1943 [author´s translation, C.L.].
[597]BA/Pots 09.01/68455, Memorandum by Wiehl, December 1943; BA/Pots 09.01/68455, Undated memorandum by Sabath on further war *matériel* supplies to Spain.

After a further request by the Spanish Foreign Minister, General Jordana, in January 1944, the German government therefore commenced preparations on *Programm Ankara* which was to include tanks, planes, anti-aircraft guns, motor-cycles and radio stations. In mid-July 1944, one month after the Allied invasion of France, the Spanish government finally accepted *Programm Ankara*. Moreover, one month before, the AGK offered Spain even more war *matériel* in the form of 67 tanks with ammunition and command cars and 62 artillery pieces and canons. Yet, the rapid development of the war after the Normandy landings appeared to have prevented almost any transports agreed upon under these new contracts.[598] In the end, only 15 planes which had made emergency landings in Spain were sold to the Spanish government in August.[599]

It can safely be concluded that the relationship between Germany and Spain from the *Wehrmacht´s* defeat of France to the Allied invasion of 1944 was dominated by economic considerations. This is true for the negotiations over a Spanish entry into the war in 1940/1, though other factors, most importantly territorial demands, undoubtedly contributed to Franco´s decision not to commit himself totally to Germany. Thereafter, with a Spanish entry into the war becoming increasingly unlikely, the emphasis in the relationship between the two regimes shifted almost completely to the economic arena. This process towards an economic focus in the relationship can be gauged in Hitler´s reactions to Spanish requests for war *matériel*. In early 1943 he still demanded clarification from the Spanish authorities on the question whether German war *matériel* deliveries were regarded as simply major trading items or whether there was a political-military factor involved - that is strengthening

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[598]BA/MA RW5/v.429, Report on *Programm Bär*, 26/1/1944; BA/MA RW19/448, War Diary No. 8of OKW *WStb (Ausl.) 3.Abt.*, 1/4-30/6/1944; MAE R2149/7, Several letters to the Spanish Foreign Ministry, June to November 1944.
[599]BA/Pots 09.01/68455, Letter, Schüller to German Embassy in Spain, 25/8/1944.

Franco Spain against a possible Allied invasion. In early 1944, however, Hitler´s interpretation of German arms supplies to Spain had completely shifted to an emphasis on the commercial nature of the deliveries.

From a German point of view the economic relationship to Spain during the period 1940 to 1944 proved to be a major disappointment. German aspirations to expand the ROWAK/SOFINDUS mining empire in Spain were foiled by the Spanish authorities and by Germany´s lack of funds. In fact, the latter combined with a lack of fuel, machinery, and skilled labour led to the result that even the mines already acquired during the Spanish Civil War could not produce the expected amounts of essential raw materials. Yet, the most annoying aspect for the Nazi leadership was the realization that its apparent influence over the Franco regime gained during the civil war had largely evaporated. The Spanish regime contained a large Germanophile element and a Germanophobe element, though the latter proved to be far less outspoken in its views. After 1941, the regime remained outwardly pro-Axis and was careful not to antagonize Germany. Yet it would also try to foster Spain´s economic ties to the Allies. Every clear-thinking member of the regime was aware that Spain was economically dependent on the Allies, particularly after the economic negotiations with Germany during 1940/1 had yielded only pitiful results. Indeed, the Spanish regime demonstrated an increasingly independent spirit when it came to economic negotiations with Germany. After the invasion of the Soviet Union Germany became dependent on certain Spanish products, most notably wolfram - the focus of the next chapter - but also wool and hides. Yet, the value of Germany´s exports to Spain could not keep up with her imports from the country, particularly when Allied preemptive buying pushed up prices of Spanish goods. Eventually, the Franco regime had enough and demanded German moves to combat her trade deficit. War *matériel* proved to be a way to alleviate, though not to solve the problem, particularly as Franco rejected all

attempts by Germany to demand inflated prices. A solution to the trade deficit was never found. In fact, although Franco was annoyed about the unsatisfactory amount of German supplies, he could not react by cutting off Germany from Spanish markets. As the case of the single most important Spanish product - wolfram - demonstrates, there was too much at stake for the Spanish economy and the financial situation of the Spanish state to risk such a move.

CHAPTER V

NAZI GERMANY'S STRUGGLE FOR SPANISH WOLFRAM AND ALLIED ECONOMIC WARFARE

On 1 May 1944 Sir Samuel Hoare summed up the most crucial issue of his past four years as British Ambassador in Franco's Spain in a letter to Foreign Secretary Anthony Eden. In his usual histrionic way he wrote:

> After six months of continuous controversy, the word `wolfram´ will probably be written on my tombstone - a word that before the war was practically unknown, a mineral that was as worthless as dust in 1939, and was selling at £7000 a ton in 1943.[600]

...and whose price again decreased to its 1939 value by the end of the war. Why was it that this mineral, which had been relatively unknown to anybody but steel industry experts before the war, received such attention by Axis as well as Allied leaders and diplomats, particularly from early 1942 onwards? In Spain, wolfram dominated the economic warfare agenda from 1942 until the German troops had to withdraw from the Pyrenees in August 1944 and rail links from Spain to Germany were cut off.

The significance of wolfram (or tungsten) for Germany´s war effort - and, for the Allies, the importance of denying Germany access to wolfram - is explicable in terms of its multiplicity of uses. According to James Cortada, the `Westinghouse Electric Company estimated that during World War II, tungsten was put to use in 15,000 ways in the manufacture of war oriented goods.´ A more detailed examination of the properties and uses of this ferro-alloy reveals some interesting facts. Wolfram has the highest melting point of all known

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[600]PRO FO371/39654/6240, Letter, Hoare to Eden, 1/5/1944.
For the American Ambassador Carlton J.H. Hayes wolfram became `a topic of daily conversation.´ Some members of the American embassy apparently even `dreamed about it at night´ (C. Hayes, Wartime Mission in Spain 1942-1945, New York:1945, p.85).

metals (3380 degrees Centigrade), possesses a high tensile-strength and is very heat resistant. It is normally used in connection with other ferro-alloys to produce tool steel such as high speed steel. This is of special importance in the armaments industry for the production of gun barrels and artillery shells as hard types of steel can be worked on quickly and in large quantities. Germany was apparently the first nation in World War II to use wolfram in the production of ammunition which could penetrate steel armour. As wolfram combines hardness with a relatively light weight, it is also used in the production of aeroplane engines and propellers. Other sectors of industry where it played an important role include the electric industry and the production of synthetic fuel.[601]

Though wolfram was used in smaller amounts than other ferro-alloys such as chrome or nickel, its import was crucial to the German arms industry. The recognition of this fact triggered off the Allied economic warfare campaign in the Iberian Peninsula to prevent Germany from importing required amounts of this material. Although wolfram supplies from Portugal were regularly higher than wolfram imports from Spain[602], and the history of economic warfare over wolfram in the two countries is intertwined[603], the following will concern itself with Spain.

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[601] J.-J. Jäger, *Die wirtschaftliche Abhängigkeit des Dritten Reiches vom Ausland*, p.20f.; J.W. Cortada, United States- Spanish Relations, Wolfram and World War II, p.19.

[602] German Wolfram Imports from Portugal (in metric tons)

1941	1968
1942	1306
1943	1755
1944	315

(BA/MA RW19/435, Enclosure 25 to War Diary No. 4 of OKW *Wwamt Wi Ausl IV a*, 30/1/1943; BA/MA RW19/434, Letter, OKW *Wwamt Wi/Ausl III/IVo* Wiehl, 5/12/1942; BA/MA RW19/440, Memorandum by Holtmeier on German wolfram imports from Spain and Portugal, 15/5/1944; BA/MA RW19/441, German Import Plans 1944, Report by OKW *Fwi Amt/ Ausl 2./IIIb*, 5/9/1944; ADAP, E, II, Letter, Wiehl to *Sonderzug RAM*, 29/5/1942).
See Table X for comparison with wolfram imports from Spain. Unless otherwise indicated, figures refer to wolfram ore with 60-65 per cent wolfram metal content.

[603] Germany as well as the Allies tried to coordinate their purchasing campaign in the Iberian Peninsula as a whole. Smuggling often turned Portuguese wolfram into wolfram of Spanish origin, particularly after the Portuguese Government had monopolized the country´s wolfram production and lowered prices on 1 March 1942. This made it profitable to smuggle wolfram into

Iberian wolfram provides a very interesting example of how the British and American governments conducted and organized, and occasionally disagreed on, an important economic warfare campaign. In Spain this campaign was confronted with the power and influence of Nazi Germany´s established apparatus. In fact, far more than with any other Spanish product during the Second World War, ROWAK/SOFINDUS tried to make sure that Germany received sufficient amounts of wolfram. This aim was partly pursued through the wolfram mines owned by SOFINDUS[604], mainly however through a ruthless purchasing campaign. Financially, the wolfram campaign proved to be an enormous drain on the financial resources of the Allies, and even more so on Germany. The relentless competition between Allies and Germany gradually led to astronomical price rises so that, by 1943, wolfram had become Spain's primary export item in value terms.[605] Although the figures in table 26 refer only to foreign currency Spain obtained through her exports, they nevertheless provide a useful picture of the rapidly increasing importance of wolfram in comparison to other major Spanish export items.

Spain where it could be sold at much higher prices (ADAP, E, II, doc.251, pp.430-2, Letter, Wiehl to *Sonderzug RAM*, 29/5/1942; ADAP, E, V, doc.311, pp.615f., Memorandum by Wiehl, 16/4/1943).

[604]See previous chapter.

[605]BA, R 7/818, *Die Entwicklung des spanischen Außenhandels im Jahre 1943*, 25/3/1944.

Table 26: FOREIGN CURRENCY OBTAINED FROM EXPORT OF PRINCIPAL SPANISH EXPORT PRODUCTS, 1940-1944, in million £

	1940	1941	1942	1943	1944
Wolfram	0.073	0.248	3.965	15.657	16.261
Oranges	2.331	8.941	8.322	9.140	5.209
Mercury	2.180	2.136	4.030	1.730	0.006
Olives	1.575	1.246	1.520	2.538	3.033
Iron ore	1.225	1.195	2.130	2.635	3.113
Cork	0.848	1.911	2.292	2.335	1.870
Skins, hides, fur	0.408	1.578	4.320	3.068	2.175
Anchovies	0.334	1.495	2.826	2.231	0.126
Total	19.785	36.088	51.641	79.024	59.740

Source: BE DE-IEME.*Secretaría Caja* 67; BE DE-IEME. *Estadística Libros* 22856,22863, 22866.

While wolfram accounted for less than a tenth of Spain´s foreign currency receipts in 1942, its proportional importance had risen sharply to one fifth in 1943. Indeed, over the same period, total foreign currency receipts had actually increased by more than 50 per cent making the enhanced role of wolfram even more impressive. Understandably, the Spanish government was extremely keen on a continuation of the economic warfare over wolfram for as long as possible. From the above table it appears that the Franco regime was indeed successful in its objective. In 1944, with overall foreign currency receipts in decline, foreign currency obtained from the export of wolfram did increase again from its 1943 value. Wolfram now accounted for just less than a quarter of overall foreign currency receipts. In this context, the aforementioned RM 100 million repayment on Spain´s civil war debt to Germany proved to be one of Franco´s major steps to ensure Germany´s continued presence on the Spanish wolfram market into 1944, and it will therefore be emphasized.

Before the Second World War wolfram had played a negligible role as a Spanish export product. Nonetheless, Spain had been the second biggest producer of wolfram in Europe behind Portugal. Together they accounted for a maximum of about 9 per cent of world wolfram production before the war.[606] At that time, Germany's industry used up about a quarter of world wolfram production, more than any other country in the world.[607] Yet, Germany's consumption of wolfram was almost exclusively met by supplies from China and India, and it imported only limited amounts from Spain. (see table 27)

Table 27: GERMAN PRE-WAR WOLFRAM ORE IMPORTS FROM SELECTED COUNTRIES (in metric tons)

	China	India	Portugal	Spain	Total Import
1936	5100	900	300	136	8700
1937	8037	1229	304	150	11400
1938	8962	1295	658	119	14200
1939	4142	62	638	74	a.8000
1940	800	---	61	394	n/a

Sources: For Spanish figures see Table 28; other figures: M. Einhorn, *Die ökonomischen Hintergründe*, p.204 (based on File No. 6155/53 (18) of the Archive of the German Issuing Bank); J.-J. Jäger, *Die wirtschaftliche Abhängigkeit*, p.157 (based on *Der Außenhandel Deutschlands*, August 1939, 237n).

Supplies from the Iberian Peninsula were less attractive because of their frequently difficult accessibility and their often small concentration of wolfram content.

Germany did, however, start preparing for the eventuality of a reduction of wolfram imports from the Far East, particularly after the outbreak of the Sino-Japanese war in the summer of 1937, and with the threat of a possible British

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[606] J.-J. Jäger, *Die wirtschaftliche Abhängigkeit*, p.271.
[607] *Ibid.*, p. 91.

economic blockade looming.[608] In early January 1937, Bernhardt urged the Nationalist authorities to increase the production of wolfram[609] while HISMA/ROWAK went on to buy up Spanish wolfram mines, as usual with the help of Spanish front men. Nazi Germany also purchased wolfram mining interests in Portugal and extended its contacts to independent wolfram producers in both countries. Undoubtedly, the Nazi leadership wanted to make sure that Germany would have access to the nearest wolfram sources, should the import of wolfram from the Far East become impossible.

While Germany was interested in limited amounts of Spanish wolfram before 1940, there is no record at all of any British interest. Thus, when the `Subcommittee on Iron and Steel and Ferro-Alloys of the Commodities Priority Committee´ finished its first interim report in 1940, it could not even provide any clear estimates of supplies from the Iberian Peninsula. The report contained a very rough estimate of German requirements of 6,000,000 lbs of wolfram per year but made no mention of any British requirements.[610] Further reports of that year, however, indicate that wolfram was slowly creeping onto the agenda of British preemption plans. The first clear comment on the need to preempt wolfram was added by a certain D. Davidson from the Ministry of Economic Warfare (MEW) to a letter he had received from the United Kingdom Commercial Company (UKCC) on 22 October 1940. The letter had stated that Germany was buying Silleda-wolfram at £120 a ton and Davidson commented that `...it shows how badly the axis require the material and I suppose that on this basis we must preempt.´ Jack W. Nicholls, a colleague of Davidson´s, added a simple `I agree.´[611]

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[608]In 1938 only about 72 per cent of imported wolfram ores were consumed. The rest went into building up stocks.(*Ibid.*, p.158)
[609]AHN PG/DGA187, Letter, Bernhardt to N. Franco, 15/1/1937.
[610]PRO FO837/108, First interim report by the Subcommittee on Iron and Steel and Ferro-Alloys of the Commodities Priority Committtee, 29/4/1940.
[611]PRO FO837/721, Comment by D. Davidson (MEW) to a letter from UKCC (London), 22/10/1940.

Events moved at an increasing speed thereafter. First British reactions were directed at German interest in Portuguese wolfram. By July 1941, however, the British government had finally realized that `the wolfram bubble has now spread from Portugal to Spain.´[612] Thus, three months later the MEW received authority from the Treasury to embark on wolfram operations in Spain.[613] Purchasing was to be conducted for supply as well as preemption reasons. Additionally, by November 1941 first indications arrived from the American government that it was willing `to co-operate in a policy of controlling mining supplies´, including wolfram.[614] Thus, the policy of `depriving the Germans of every possible ton of wolfram´ had finally been established as Joe Dolphin of the UKCC pointed out to Jack Nicholls in a letter on the matter of the possible purchase of the San Finx wolfram mines.[615] From an organizational point of view, the MEW was in charge of coordinating and planning of the wolfram campaign and the UKCC was responsible for the day-to-day running of the campaign in Spain.

Yet, despite launching its first purchasing attempts on the Spanish wolfram market in 1941, the campaign was initially impeded by a pronounced lack of funds as well as an inadequate organizational network. According to MEW documents Britain bought and imported its first amounts of Spanish wolfram in 1941. Out of a total Spanish production of 504 metric tons in that year, Britain managed to purchase only 72 tons and imported a meagre 20 tons.[616]

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[612]PRO FO837/721, Letter, D. Davidson (MEW) to John Penton (Treasury), 3/7/1941.
[613]On 25 September 1941 Davidson wrote to Joe Dolphin (UKCC): `Following on the authority which the Treasury have given us to go all out on wolfram in Portugal they have now given us written authority for operations in Spain.´ (PRO FO 837/721)
[614]PRO FO837/743, Reported at 2nd meeting of Pre-emption Committee, 6/11/1941.
[615]PRO FO837/743, Letter, Dolphin (UKCC) to Nicholls (MEW), 4/11/1941.
[616]First Spanish production figure taken from BA, R 7/734, Report by RWM on Spanish mining production, May 1943; other figures from Table Exports of Wolfram (Spain) compiled by MEW, 18/5/1944, in PRO FO 837/786. A summary on Spanish minerals by the UKCC in PRO FO 837/758 gives 32 tons as the amount bought by Britain in 1941. The same document claims that Spanish production of wolfram in 1941 was as high as 900 tons. We are confronted with the problem that documents do not always make clear whether figures refer to pure wolfram, wolfram ore with specific wolfram concentrations or just general amounts of wolfram ore.

Germany, on the other hand, had already imported 394 metric tons in 1940 despite the fact that it was faced with very difficult transport conditions for most of that year.[617] It therefore appears that Germany must have bought quite heavily on the Spanish market before the invasion of France in anticipation of the establishment of future direct rail links, or at least in hope of successful blockade-running activities such as the aforementioned *Wagner-Aktion*.[618] In fact, the first war supplies of wolfram were imported on board of blockade runners and planes.[619] With increasing frequency, wolfram appeared on lists of German requests until, in summer 1940, it finally became the most wanted single Spanish product.[620]

Despite SOFINDUS´ modest overall mining successes,[621] the production of German-owned wolfram mines should not be underestimated. In 1940 production amounted to 122 metric tons of 65 per cent wolfram metal content, and hopes for future increases were high.[622] By the end of 1940, Germany remained Spain's almost exclusive customer for her wolfram production. And despite the appearance of British buyers on the Spanish wolfram market, Germany continued to be by far the biggest Spanish customer in 1941. (see table 28)

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[617] BA R121/858, Audits of Minerales de España.
For the transport situation between Spain and Germany in 1939/40, see Chapter III.
[618] In September 1939, for instance, Minerales de España had arranged the purchase of 160 metric tons prepared wolfram. In fact, in April 1940 Germany applied for export licences for a total of 400 metric tons of wolfram (FCO AA3868/045823, Telegram, Sabath to German Embassy in Madrid, 26/9/1939; FCO AA333/196423, Telegram, Stohrer to German Foreign Ministry, 6/4/1940).
[619] FCO AA 3868/045940 and 045983, Telegram, Stohrer to German Foreign Ministry, 28/12/1939 and Telegram, Eberl to German Foreign Ministry, 18/1/1940.
[620] FCO AA333/196484f., Telegram, Sabath to German Embassy in Madrid, 13/6/1940.
[621] See previous chapter.
[622] BA R7/738, Report by the Deutsche Revisions- und Treuhandgesellschaft Berlin on ROWAK´s mining companies, 1942.

Table 28: GERMANY, THE ALLIES AND SPANISH WOLFRAM, (in metric tons)[623]

YEAR	SPANISH PRODUCTION	GERMAN IMPORTS	ALLIED IMPORTS	AVERAGE PRICE (per t in Pts)
1936	228	136		
1937	250	150		
1938	215	119		
1939	228	74 (n/a)	n/a	7,500
1940	296	394 (n/a)	n/a	15,250
1941	503.6	318 (800)	20 (72)	25,790-65,000
1942[624]	1,475.5	794 (805)	438 (771)	125,000-160,000
1943	3,618.7	834.3 (1,309)	943 (3,021)	170,000-275,000
1-6/1944	n/a	785 (n/a)	336 (to April) (1,088 to April)	180,000
9/1944				20,000

Sources: BA R7/734, BA R7/735, BA R7/736, BA R7/3374, BA R7/3404, BA R121/858, BA/MA RW19/440, BA/MA Wi/IB2.3, BA/Pots 09.01/68454, FCO AA89/103585f., PRO FO837/721, PRO FO837/758, PRO FO837/786, PRO FO371/39654.

Table 28 clearly indicates the rapid development of Allied-German competition for a share in the Spanish wolfram market from 1941 onwards. Germany quickly increased her interest in wolfram from Spain - or, to be precise, from the Iberian Peninsula - after the invasion of France. Britain, on the other hand, reacted by entering the Spanish wolfram market and - with the help of the USA - soon established herself as a formidable competitor of Germany.

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[623]All figures refer to wolfram ore with 60-65 per cent wolfram content, unless otherwise indicated. Total annual amounts of Spanish wolfram purchased by Germany and the Allies appear in brackets below the import figures.

[624]The comparative Spanish figures for 1942 and 1943 provide a fascinating insight into the manipulation of Francoist statistics after the defeat of the Axis. According to a statistic found by Viñas, Spain supposedly exported only 375.5 metric tons to Germany in 1942, and 560.1 metric tons in 1943, while she exported 676.6 metric tons and 2,103.4 metric tons, respectively to the Allies (A. Viñas, *Política Comercial Exterior*, p.430, based on MAE R2073/E5).

The most straight-forward reason for an interest in Spanish wolfram applied particularly to Germany: the availability of wolfram was so much closer at hand than its previous major source of supply, China. Until the invasion of the Soviet Union in the summer of 1941, Germany had still been able to obtain relatively large amounts of wolfram from the Far East via the Trans-Siberian route through the Soviet Union.[625] Although Germany continued to benefit from the use of blockade runners, which transported wolfram from the Japanese sphere of control to Germany[626], it seemed prudent to make use of wolfram sources closer at hand. As indicated, the Nazis had already started to increase supplies of wolfram from Spain well before the end of 1941. Yet, the import figures for 1942 show the marked change of the supply situation. In 1942 Germany imported 794 metric tons of wolfram from Spain[627]; the output of its mines, however, did not increase noticeably compared to 1941.[628] A comparison with the Spanish production figures of 1942 indicates that Germany had lost ground to her British competitors despite having increased the relative amount of wolfram imported. Germany's share of the official Spanish wolfram market continued to decrease while British buyers, responsible for Allied wolfram purchases in Spain, were steadily improving their position.[629]

Although accessibility was certainly the one major reason for Germany's interest in Spanish wolfram, other factors also contributed to this development. These reasons were directly linked to developments during the Spanish Civil War. Detailed attention has been drawn to the organizational network the Nazis had built up during the civil war. One of HISMA/ROWAK´s many tentacles reached out onto the Spanish wolfram market. This initial involvement provided

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[625]G. Stone, The Oldest Ally, p.250.
[626]In 1942 Germany imported a total of 1000 metric tons of wolfram from the Far East, slightly less than a fifth of its consumption in that year (BA/MA RW19/435, Enclosure 25 to War Diary No. 4 of OKW *Wwamt Wi Ausl IV a*, 30/1/1943).
[627]BA R121/758, Audits of Minerales de España.
[628]See table 22 on p. 179.
[629]See table 28 on p. 208.

the basis for a post-civil war extension of Germany´s influence. Thus, during the Second World War the Nazis tried to consolidate their position on the Spanish wolfram market. In one particular instance, in May 1942, SOFINDUS reached an agreement with IG Farben over mutual cooperation on the exploitation of Spain´s wolfram resources. Shortly before, on orders from the German Alloy Ore Mining Corporation, IG Farben had decided on the mining of Spanish wolfram. Yet, as the company lacked an administrative network in Spain, it asked SOFINDUS for help. As the main SOFINDUS subsidiary concerned with wolfram mining, Montes de Galicia was given the task of acting as organizational trustee for IG Farben in Spain.[630] In March 1943 IG Farben then organized all its newly acquired Spanish mines under the roof of its own mining company Minas Reunidas.[631]

Not only were mines and companies bought up, but also helpful links to influential officials in Francoist Spain were established. As exports of wolfram to Germany were regularly hampered by the slowness with which the Spaniards were issuing export licences, smuggling became a useful tool to accelerate the transport of wolfram out of Spain. It is therefore not surprising that the contacts which SOFINDUS and German embassy officials cultivated to border guards and custom officials frequently paid dividends. While these facts represent only part of the explanation for Franco's attitude towards Germany and Britain during the Second World War, they suffice at this stage to underline a certain advantage Germany held over Britain in her dealings with the Franco-regime.[632]

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[630]BA R 7/738, Report by the Deutsche Revisions- und Treuhandgesellschaft Berlin on ROWAK´s mining companies, 1942.
[631]BA R 121/807, Report by the Deutsche Revisions- und Treuhandgesellschaft Berlin on ROWAK´s mining companies, 17/12/1943.
[632]Other issues contributing to the attitude of the Franco-government in the "wolfram-war" will be discussed later.

Britain had entered the Spanish wolfram market mainly in reaction to the obvious German need for wolfram. In other words, preemption was the essential motivation for Britain´s entry rather than to satisfy its own industrial demands.[633] This had become abundantly clear by October 1943 when, as a consequence of the massive purchasing activities of the previous year, enormous stocks of wolfram had been piled up in Britain. Two letters by officials in the Ministry of Supply to the MEW and the UKCC, respectively, made this development unmistakably clear. On 29 October 1943 E.G. Fairburn wrote:

> You are quite right in assuming that we have no supply interest in Spanish wolfram and in fact what with its inferior quality, trouble in treatment and not knowing when, if ever, or in what quantities, if any, the stuff is likely to arrive we should be glad to cut it out of our programme altogether. But so long as you continue to buy it and intend to ship it to this country we must continue to use it.

And on 27 January 1944 N. Isaacs added: `We have such large quantities of Wolfram here, covering all our possible requirements far into 1945 or beyond.´[634] In fact from 1941 onwards Britain had been far less dependent than Germany on supplies of wolfram for industrial purposes because she was able to receive sufficient quantities of molybdenum which was a substitute product and in plentiful supply in the United States.

Such had been the Allied efforts to increase their share of the wolfram market that the supply factor itself had quickly been drowned by the overriding aim of preemption. Indeed, by late 1942 the economic warfare over Spanish wolfram had heated up considerably. In 16 March 1942 a financial report by the British Embassy in Madrid had still expressed pessimism: `We have not really started to touch the wolfram market, as the U.K.C.C. has been limited in its

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[633] In December 1941, a MEW meeting concluded that `it was agreed that there was no need to decide whether wolfram was to be regarded as a pre-emptive or a supply purchase´ as it apparently fulfilled both functions (PRO FO837/735, Note on a meeting at MEW, 22/12/1941).
[634] PRO FO837/786, Letter, E.G. Fairburn (Min. of Supply) to G.C. Gibbs (MEW), 29/10/1943, and Letter, N. Isaacs (Min. of Supply) to James Dey (UKCC), 27/1/1944.

purchasing power by the lack of liquid assets in the Anglo-South American Bank.´[635] Yet, the report had also indicated that a change was now possible with the execution of the new Anglo-American supply plan. By December 1942 this prediction had turned into reality as target figures for the joint supply/purchase programme for July-December 1942 had been exceeded by 43 per cent as far as wolfram was concerned.[636] The Allies had obviously been successful in surging ahead in their quest to damage Germany´s wolfram supply line. In fact, British sources indicate that, in March 1942, Britain had for the first time bought more Spanish wolfram than Germany, 50.7 tons against 21.4 tons.[637] Unfortunately, there is no German information available to countercheck this claim.

Thus, the general trend becomes obvious: the Allies' share of the Spanish wolfram market was growing rapidly as preemption of wolfram was becoming increasingly important. At the beginning of 1943 a joint Anglo-American fund was being built up exclusively for the purpose of purchasing wolfram. Within three months approximately Pts 220 Million had been accumulated, and by April the Allies `were ready to make a big drive.´[638] And so they did: In April 1943 Britain bought 254.671 metric tons of wolfram compared to 133.513 metric tons in March, 97.768 metric tons in February and 70.589 metric tons in January.[639] The importance of wolfram preemption was sufficiently underlined by Ellis-Rees in May 1943. In a memorandum on the economic relations with Spain he stressed that wolfram had priority `at the expense of all other pre-emptive purchases.´[640] Germany, on the other hand, clearly started to suffer from the aggressive purchasing campaign of the Allies. While Germany

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635PRO FO837/756, Financial Report No.6-1942 by British Embassy, Madrid, 16/3/1942.
636PRO FO371/34793/1458, Letter, A. Conrad (MEW) to Roberts (FO), 4/2/1943.
637PRO FO837/758, Report by British Embassy, 13/8/1942.
638PRO FO371/39648/6500, Annual report by Hugh Ellis-Rees on 1943, 17/3/1944.
639PRO FO837/786, Table on wolfram deliveries and shipments to UK January to June 1944.
640PRO FO371/34798/6500, Memorandum by Hugh Ellis-Rees on Economic Relations with Spain, 31/5/1943.

reached her highest monthly purchasing figure in February 1943 with 279 metric tons, it experienced a steady decline thereafter.[641] In fact, British buyers managed to purchase 341.31 metric tons in June, and even 527 metric tons in July, while Germany acquired only 97.2 metric tons in June and was down to a meagre 5 metric tons in December 1943.[642] A clear picture was emerging: While the Allies were investing heavily in the preemption of wolfram, Germany's funds were eroding quickly in the summer of 1943.

As a result of Germany´s severe financial problems, her buyers withdrew almost completely from the Spanish wolfram market at the beginning of July 1943. The available evidence suggests that no wolfram was purchased at all in July, August and September.[643] According to the MEW the proportion of wolfram purchases had by then moved `from 3:2 in favour of Germany to 6.7:4 in favour of ourselves + the U.S.´[644] At the same time, however, Britain was beginning to experience much the same problem as Germany. Funds were also running dangerously low.

The major explanation for the financial problems faced by both sides can be found in the development of Spanish wolfram prices since the outbreak of the purchasing warfare. Ultimately, it was a simple question of supply and demand, and as demand was very high, prices rose very fast. While Britain had paid between Pts 60 and Pts 80 per kg of wolfram at the end of 1941, prices had risen to Pts 120 in February 1942, to between Pts 150 and Pts 160 by May 1942 and stood at about Pts 172.5 by the end of the year.[645] German sources reveal

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641 BA R7/734, Letter, IG Farben to *Oberberghauptmann* Gabel (RWM), 18/5/1943.
642 PRO FO837/782; BA R7/735, Letter, IG Farben to *Oberberghauptmann* Gabel (RWM), 29/7/1943; BA R7/736, Letter, IG Farben to *Oberberghauptmann* Gabel (RWM), 20/3/1944.
643 BA R7/735, Copy of a report by German Embassy, Madrid, to German Foreign Ministry from 14/9/1943, 20/9/1943.
644 PRO FO371/34800/7629, Comment by L.C. Holliday to a telegram from Hoare dated 3/7/1943.
645 PRO FO 837/781, Report on prices paid by UKCC for Spanish wolfram, 2/4/1943.

a similar price development for 1942.[646] Compared to previous years price rises had been extremely steep. In 1938 Germany had paid about Pts 8 per kg, in 1939 about Pts 7, in 1940 about Pts 15 and even in 1941, despite rising prices, it was still only paying Pts 25 on average.[647]

The first half of 1943, however, saw another steep rise in prices. The all-out preemption campaign of the Allies at a time when Germany was also very active on the wolfram market led to prices of between Pts 215 and Pts 244 per kg in April 1943, and even Pts 285 in May.[648] Despite Germany´s absence from the wolfram market, prices dropped only slightly in late summer 1943.[649] Small wonder that such prices put an enormous strain on the extremely stretched financial resources of the German government, but also on Britain which was still largely responsible for the wolfram preemption of the Allies. In the case of Germany, overall Spanish price rises led to a situation where, in 1943, Germany had to pay a staggering RM 131 million more than in 1938 for a theoretically equivalent amount of goods. (see table 29)

According to Hoare Britain was paying between Pts 61,800 and Pts 79,420 per ton in December 1941 (PRO FO837/743, Telegram, Hoare to UKCC, 5/12/1941).
Prices also depended on the quality of the wolfram on offer. The higher the wolfram content the higher the price. Prices quoted are again generally based on wolfram ore with 60-65 per cent wolfram content.

[646] In November 1942 prices stood at roughly Pts 160 per kg, though by January 1943 prices had risen to Pts 170-175 (BA R7/735, Copy of a report by German Embassy, Madrid, to German Foreign Ministry from 14/9/1943, 20/9/1943; FCO AA5383/E361738, Letter, Schüller to Bethke, 24/11/1942).

[647] BA R121/858, Audits of Minerales de España [author´s calculation, C.L., based on import figures and their yearly value].

[648] BA R7/734, Letter, IG Farben to *Oberberghauptmann* Gabel (RWM), 18/5/1943; PRO FO837/781, Table on wolfram prices, March 1943.

[649] In August 1943 prices averaged at Pts 243.75 (PRO FO837/782, Table on wolfram prices, August 1943).

Table 29: EFFECT OF SPANISH PRICE RISES ON THE VALUE OF GERMANY'S IMPORT OF SPANISH GOODS, 1939-1943

Year	Difference between Import Value based on Respective Average Prices and Import Value based on Average Prices in 1938 (in mill RM)
1939	+ 2
1940	- 1
1941	+ 15
1942	+ 85
1943	+ 131

Source: BA R7/3639.

Yet, the problem did not end there. As if high prices were not causing enough financial problems to the competing buyers, the Spanish government used the economic warfare over wolfram to give a boost to its own finances. By the end of 1942 the Franco regime had become convinced that Germany and Britain were locked in an economic warfare campaign over wolfram. It was evident that Germany desperately needed wolfram and that Britain, though not in desperate need herself, would do almost anything to prevent Germany from receiving it. Thus, the Spanish government cleverly used this favourable situation to impose taxes on wolfram. On 7 January 1943 the Ministry of Finance introduced a production tax of Pts 100 per kg. Additionally, it continued to charge an already existing export tax of Pts 50 per kg. Moreover, the price of *guias*, permits, showing the name of mine, destination and ownership which were required for the transport of wolfram within Spain, put an additional financial burden on Britain and Germany. According to the UKCC the Spanish government charged Pts 35,000 for *guias* for each ton of wolfram in February 1943.[650] Due to some pressure by German officials in February 1943, the Spanish government exempted German wolfram purchases from the original

650PRO FO837/775, Report by UKCC, February 1943.

export tax.[651] Additional pressure by British officials led to an eventual official reduction of the total tax burden (i.e basic tax plus export tax) to Pts 100 per kg of wolfram on 29 April 1943. Yet, the financial situation of the buyers continued to deteriorate. The Allies alone spent Pts 142 million on the purchase of Spanish wolfram between January and June 1943[652], and a total of Pts 420,411,000 on wolfram taxes until August 1944.[653]

The Spanish government used wolfram not only to boost its revenue but also to force the Allies as well as Germany to certain concessions. In the case of Germany this is particularly true of Franco´s attempt to rid Spain of its civil war debt. When Spain offered Germany RM 100 million in November 1943[654], Franco pursued two underlying objectives. From an economic and financial point of view it was crucial to keep German buyers on the wolfram market. Germany´s withdrawal from the market had already led to price decreases owing to reduced demand. Moreover, all-out preemption would lose its urgency and the Allies would ultimately reduce their purchasing activities. This likely development would obviously lead to falling profits for mine owners, falling revenue for the government and increased unemployment in the mining areas of the north-west. The sensible thing to do was therefore to enable Germany renewed access to the wolfram market. The Allies would have to continue their preemption campaign and the wolfram bubble would remain intact. However, and to the dismay of the Franco regime, the US government decided not to play ball.[655]

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[651]BA/Pots 09.01/68454, Telegram, Moltke to German Foreign Ministry, 27/2/1943.
[652]W.N. Medlicott, The Economic Blockade II, p.550.
[653]BE/IEME Secretaria/162, Letter, Alfred W. Barth (USCC) to unknown Spanish official, 22/8/1944.
[654]See also A. Viñas, *Política Comercial Exterior*, p.409, for further information on the Spanish debt repayment.
[655]See below, pp. 223ff.

In fact, the second objective pursued by Franco was also not fully achieved. Despite the pressure put upon the German government to acknowledge the RM 100 million as the final payment on the civil war debt, ultimately, Franco had to agree to regard it only as a further part payment. As we have seen in the previous chapter, Spain still continued to owe money to Germany on her civil war debt.[656]

Table 30: EMPLOYMENT OF SPANISH DEBT INSTALMENT OF RM 100 MILLION

Production tax on about 800 t of wolfram concentrate	RM 15 million
Export duties on woollen blankets, skins, etc.	RM 5 million
New wolfram purchases (about 700 t) and export	RM 42 million
20,000 flasks of mercury	RM 12 million
Non-ferrous metals (e.g. copper)	RM 4 million
Lead, woollen blankets and skins	RM 12 million
For the use of German Embassy	RM 10 million
TOTAL	**RM 100 MILLION**

Source: BA R121/1237, Copy of letter, Bethke to German Foreign Ministry and Reich Finance Ministry, 22/12/1943 [author's translation, C.L.]

The Spanish government also tried to use the wolfram issue in its relations with the Allies. The British government, in particular, was frequently approached in an attempt to secure much needed raw materials, particularly rubber. On 7 March 1942 the Spanish Minister for Commerce and Industry Demitrio Carceller made the extraordinary suggestion to Ellis-Rees that for the promise of 1,000 or 1,500 tons of rubber, wolfram export licenses for all available wolfram would be given to Britain and, even more extraordinarily at the time, all wolfram bought by Germany would be taken away.[657] It seems very unlikely that Franco would have risked worsening relations with Germany. Yet, in May 1942

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[656] See table 19 on p. 159.
[657] W.N. Medlicott, The Economic Blockade II, p.305.

Hoare reported to the MEW that Carceller would give export licenses for wolfram `once the rubber was loaded.´ Carceller `claimed that as evidence of his good faith he had refused all export licenses to Germany.´[658]

Unfortunately, there is no conclusive evidence in the German archives to prove or reject Franco's claim.[659] According to available documents, the Spanish government had also approached Germany about rubber supplies. The reaction of the German government was a reflection of the state of the Spanish-German trading relationship at the time. Although keen to receive as much wolfram as possible, the Nazis were largely unable to satisfy Spanish counter-demands. It seems likely therefore that the Spanish government used the threat of a temporary stop of wolfram exports to Germany to force her into action over the clearing deficit and insufficient German supplies.[660] At the same time it might have presented this temporary embargo to the Allies as a sign of goodwill in the negotiations over Allied supplies to Spain.

Another possibility is that the Spanish government as a goodwill gesture made Britain the offer of a rubber - wolfram deal because it knew that the British government would and could not accept it - mainly because of Britain's own requirements. Nonetheless, the idea of wolfram export licenses in exchange for rubber from Nigeria continued to be of interest to Spain as well as Britain. In November 1942 Carceller agreed to grant wolfram licences for wolfram bought by Britain in exchange for 500 metric tons of rubber, but Hoare had to tell him

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[658]PRO FO837/761, Letter, Hoare to MEW, 6/5/1942.
[659]IG-Farben only managed to import 31.9t of Spanish wolfram in the period January to June 1942 (BA R7/734, Letter, IG Farben to *Oberberghauptmann* Gabel (RWM), 22/1/1943; ADAP, E, II, doc.251, pp.430-2, Letter, Wiehl to *Sonderzug RAM*, 29/5/1942).
[660]Germany had indeed already reacted angrily to rumours about a possible Spanish-Allied deal involving an exchange of wolfram, lead and fluorspar for rubber, coal and oil (BA/Pots 94,Samml. II.Wk/1159/472605-9, Telegram, Stohrer to German Foreign Ministry, 4/2/1942).

that only 359 metric tons were available in the following quarter.[661] This was accepted by the Spanish government and export licenses were given to Britain.

The Spanish government made use of the wolfram boom in other ways, including the law of 21 September 1942 which forced Germany and the Allies to put the purchasing of wolfram mining concessions into the hands of Spaniards or companies whose capital was completely in Spanish hands.[662] It would be a mistake to assume that in passing this law Franco intended in practice to restrict severely Allied and German economic activities in the wolfram sector. As a dictator who regarded - and officially pronounced - foreign ownership of Spanish mines as a thorn in the flesh of Spain, he could not allow foreign ownership of this new boom sector. By forcing the Allies and the Nazis to use Spaniards or Spanish companies as the purchasers of mining concessions - while at the same time allowing them to remain in control of these activities - he could simultaneously maintain his nationalist principles and preserve important economic investment from abroad.

The Spanish government considered it was possible to maintain this contradictory position because it was convinced that Germany depended on wolfram from the Iberian Peninsula and because it concluded from the behaviour of British officials that the British government was cautious to avoid antagonizing it. This perception was not misplaced. As long as German troops were stationed on the Franco-Spanish border, there existed a chance, however remote, of either a military alliance between Germany and Spain or a German invasion of Spain. In these circumstances the British government continued to be conciliatory towards Franco. Although Hoare denied the charge of

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661 PRO FO837/750, Letter, Hoare to MEW, 4/11/1942.
662 Article 3 of the new law (PRO FO837/766, Translation of new Spanish mining law, 21/9/1942).
See previous chapter for the reaction of Germany and the Allies to the new law.

appeasement in his autobiography, Britain's attitude for most of the time certainly resembled this kind of policy.[663]

Despite Spain's economic and military weakness, Franco continued to play this very dangerous game. Until the end of 1943 he clearly succeeded in gambling on the wolfram card as both Britain and Germany grudgingly accepted the obvious fact that they were being exploited by the Spaniards. Although, according to Hoare, Britain did warn the Spanish government about the possible consequences of further deliveries of wolfram to Germany, the actual policy of the British government was to refrain from taking more severe steps.[664]

By the end of 1943, however, a player had joined the game who soon decided not to accept Franco´s rules. The United States government, though contributing to the joint wolfram fund of the Allies, had originally left decisions on the wolfram campaign to the British government. Its representatives took part in the discussions on wolfram in the Anglo-American, and particularly the Wolfram Committee in Madrid, but they usually concurred with British decisions.[665] According to Hoare `it was in October that the Americans began to take a serious interest in the question. It was an interest that first showed itself in the provision of very large sums for an intensified programme of pre-emption.´[666] America's increased interest in the wolfram problem coincided, or more likely was caused by the granting of the RM 100 million credit to Germany as repayment of Spain's civil war debt. The importance of this arrangement was intensified by the news of an agreement between Germany and Spain,

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663S. Hoare, Ambassador on Special Mission, p.61.

664*Ibid.*, p.259.

665The Wolfram Committee had been founded in November 1942 and consisted of members of the British and American embassies. According to Medlicott it `was formed in Madrid to deal with all matters relating to the new company (SAFI) and to discuss outstanding wolfram problems´ (W.N. Medlicott, The Economic Blockade II, p.307).

666S. Hoare, Ambassador on Special Mission, p.259.

concluded on 28 August 1943, which apparently gave Germany `unrestricted facilities for buying wolfram up to their peseta balances.´[667]

In marked contrast to the policy of the British government, and particularly British diplomats such as Hoare and Viscount Halifax, American patience with the attitude of the Spanish government was dissipated very quickly towards the end of 1943. The American government was soon disgusted with the fact that it had to invest huge amounts of capital into wolfram preemption while Franco enabled Germany to continue with the purchase of the amounts of wolfram it required. The Americans were annoyed about the fact that the Spanish government was taking advantage of the economic power of the Allies while, at the same time, it was quite clearly giving help to Germany. In this context oil from the United States was the item which was most on the minds of American government officials. Although this study is not concerned with the oil question as such, it is important to re-emphasize that Spain was desperately short of oil during most of the Second World War. It has been pointed out that the British government had initially tried to help Spain in securing oil supplies from the United States. The US government, however, had been reluctant to supply the Spaniards with oil because it suspected that the Axis received oil secretly from Spain. The Americans were therefore very strict in measuring Spain's requirements and continued to be so throughout the war. In March 1943 US officials decided to limit supplies to 100,000 tons of oil per quarter. Hoare and the MEW regarded this amount as too low and protested that it might endanger the wolfram programme.[668] Initially, the British government enjoyed some success with their protest. Spain received a total of about 610,000 tons of oil in 1943, still about 200,000 tons short of the 1935 figure, but nevertheless more than the Americans had originally been willing to supply.[669] Yet, by the end of

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667 *Ibid.*, p.258. See also PRO FO371/39654/6240, Letter, Hoare to Eden, 1/5/1944.
668 W.N. Medlicott, The Economic Blockade II, p.551.
669 BA/MA RW19/438, Enclosure 18 to the weekly report of OKW *WStb (Ausl) 2/IIc*, 24/2/1944.

1943 the Anglo-American difference of opinion over wolfram (and oil) caused increasing problems between London and Washington. The opinion of some British officials on the American attitude was summed up quite blatantly in a comment made by William Cavendish-Bentinck of the Foreign Office. Underneath a telegram the Foreign Office had received from Sir R.I. Campbell in Washington he scribbled on 4 October 1943:

> About once every quarter the U.S. War Department start a brief campaign in favour of toughness to Spain. I have always suspected that a number of American press correspondents who were with the Republicans during the Spanish Civil War are now in the U.S. War Department dressed up as majors and colonels.[670]

What had caused this reaction was simply the realization of the fact that the American government had changed its policy on Spain. It had always been much more suspicious of Franco's behaviour and intentions than the British government and all its suspicions were confirmed when Franco concluded the debt repayment deal with Germany in autumn 1943. The American government was furious, even more so because the Spanish concession to help Germany coincided with the so-called Laurel incident. In summer 1943 the Japanese had installed a puppet government in the Philippines under the leadership of José Laurel. On 18 October, the Franco regime sent a telegram to Laurel whose content the United States regarded as indicating a *de facto* recognition of his government.[671] At the end of October the US government then demanded that the Spanish government should reverse its policy *vis-à-vis* Germany and introduce a wolfram embargo. On 13 November 1943 Viscount Halifax, British Ambassador in Washington, reported on the consequences if Spain did not go along with American demands to the effect that `If the Spaniards are dilatory or

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[670]PRO FO371/34805/11527, Comment by Cavendish-Bentinck to telegram from R.I. Campbell, 16/10/1943.
[671]J.W. Cortada, "Spain and the Second World War", in Journal of Contemporary History, V, No.4, pp.66f.

obstructive about the wolfram embargo, the United States Government, without making any direct reprimand, will begin to make difficulties about supplies of oil to Spain.'[672] He emphasized that these difficulties would be gradually intensified until oil would cease to be supplied to Spain.

There is clear evidence that Franco did not immediately react to this obvious threat. Whereas Germany had only purchased 5 metric tons of Spanish wolfram in December 1943 - though it managed to import 196.1 metric tons - it used its newly gained capital to purchase 225.1 metric tons in January 1944.[673] Reports were flooding in to the Allies which proved that Germany was purchasing as much wolfram as her organizations in Spain could get their hands on. On 7 February 1944 the UKCC office in Madrid reported to UKCC head office in London that `the Germans have been actively purchasing everything available and must have obtained a considerably larger tonnage than for many months...'[674] The 73rd meeting of the Anglo-American Economic Committee confirmed this on 19 February when it came to the conclusion that the Germans were buying wherever they could and were moving it to Irún on the Spanish border to France.[675] In its 74th meeting on 1 March the Committee even reported that the Germans `appeared to be endeavouring to acquire the maximum quantity irrespective of grade and were purchasing the mineral outright without analysis.'[676]

Such reports only confirmed the US government in the decision which it had finally made public on 28 January 1944: to impose an oil embargo on

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672PRO FO837/787, Letter, Halifax to FO, 13/11/1943.
673BA R7/736, Letter, IG Farben to *Oberberghauptmann* Gabel (RWM), 20/3/1944.
674PRO FO837/786, Telegram, UKCC (Madrid) to UKCC (London), 7/2/1944.
675PRO FO371/39645/385, Minutes of 73rd meeting of Anglo-American Economic Committee, 19/2/1944.
676*Ibid.*, Minutes of 74th meeting of Anglo-American Economic Committee, 1/3/1944.

Spain.[677] It informed the Spanish government that the embargo would only be lifted if Spain imposed a total embargo on wolfram exports to Germany. The decision not only shocked the Spanish government, but also those British officials who were advocating a more lenient policy. Both reacted in their own way. On 2 February 1944 Franco decided not to issue any wolfram export licences to Germany for the time being, but permitted German buyers to continue with the purchase of wolfram.[678] Following Franco´s decision, the Spanish government imposed a temporary ban on all wolfram exports on 5 February 1944 which was taken so `seriously´ by Spanish officials that Germany managed to import 104.6 metric tons of Spanish wolfram in February, none in March, but 198 metric tons in April![679] Nevertheless, some British officials continued to protest about the American attitude. In a telegram to the Foreign Office Hoare stated on 10 February 1944 that `the Americans have lost all sense of proportion over wolfram, and if they are not checked, the situation here, which has recently been more hopeful, will be worse than ever.´ Clearly the British Foreign Secretary did not share the ambassador´s sentiments, rather he conceded that the Americans might `be right.`[680] Eden´s comment was reinforced by a minute he received from Churchill on 12 February. Although the Prime Minister was not at all sure whether the Spaniards would give in, he inclined to the view that `the United States had come so far out into the open against Spain that it would be a mistake to try to upset their rough treatment.´ According to Llewellyn Woodward the `Foreign Office - with much reluctance - felt if necessary to support the American action, since otherwise the Spanish government would realise that the Allies were divided.´[681]

677W.N. Medlicott, The Economic Blockade II, p.566; see also L. Woodward, British Foreign Policy IV, p.18.
678A. Viñas, *Politica comercial exterior*, p.414, footnote 268.
679BA R7/736, Letters, IG Farben to *Oberberghauptmann* Gabel (RWM), 20/3/1944 and 23/5/1944.
680PRO FO371/39646/1920, Telegram, Hoare to FO, 10/2/1944, and comment by Eden.
681L. Woodward, British Foreign Policy IV, p.21.

Despite the pressure put on Spain´s economy by the American oil embargo, Franco made clear that he could not and would not implement a total wolfram embargo. On 31 March 1944 he confirmed his rejection of an outright embargo in a conversation with the Duke of Alba. The Duke then passed on some information about the conversation to Hoare who duly reported this to the Foreign Office. On the wolfram embargo Franco had apparently uttered the threat, that while `he did not wish to break with the Allies he would be forced to break with them if they insisted on a wolfram embargo.´[682] Inside the Spanish cabinet the usual quarrel between Jordana and Carceller surfaced. According to the American Ambassador, Carceller `expressed contempt for his colleague´s alleged lack of business sense.´[683] Whereas Carceller, for economic and financial reasons, was against an embargo, Jordana was trying to find an arrangement which would satisfy both Franco and the Allies. He was helped in this by the fact that by April the Americans were `receding from their demand for total embargo.´[684] Reluctantly, the US government had agreed to British requests that negotiations between the Allies and Spain were to be based on the idea of an export limitation, but not on a total embargo.

An agreement was eventually reached on 2 May. Germany would be allowed to import 20 metric tons of wolfram in May and June, respectively, and 40 metric tons a month thereafter until the end of the year. Smuggling would be punished by the deduction of tonnage from the permitted monthly amounts.[685] Other sections of the agreement covered the closure of the German Consulate General in Tangier, the withdrawal of all Spanish units from the Eastern front and the expulsion of German espionage and sabotage agents from Spain and its territories.

682PRO FO371/39648/3455, Annual report by Ellis-Rees on 1943, 17/3/1944.
683C. Hayes, Wartime Mission in Spain, p.218.
684PRO FO371/39649/4297, Telegram, Hoare to FO, 4/4/1944.
685PRO FO371/39651/5412, Letter, FO to British Embassy (Washington), 27/4/1944.

The Allies had reached a solution which seemed to be satisfactory for the time being. It was reckoned that the planned invasion of France would, sooner or later, deprive Germany of any overland transport links with Spain. At the beginning of 1944 the Allies also believed that they had practically eliminated blockade runners transporting wolfram from the Far East.[686] The obvious conclusion was therefore that Germany would try even harder to get wolfram from the Iberian Peninsula, but particularly from Spain. It was an essential objective of the agreement that Germany would not be able to build up large stocks of wolfram before the invasion of France.

How successfully then was the whole agreement implemented? German and British documents indicate a blatant disregard for the agreement by both German and Spanish officials. In fact, Germany managed to import far more wolfram from Spain than permitted under the agreement. Directed by the top priority given to wolfram[687], SOFINDUS used its contacts to Spanish officials and border guards to intensify wolfram smuggling across the Franco-Spanish border. These contacts clearly went to the highest levels. According to the German ambassador Dieckhoff, the Spanish Minister of Trade and Commerce, Carceller, approved of a scheme whereby wolfram exports were officially declared as lead glance, an uncontroversial material.[688] However, the buck did not stop there. While some British officials nurtured illusions about the reliability of Franco´s rapprochement with the Allies,[689] Franco was at least condoning, if

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[686]PRO FO371/39654/6240, Letter, Hoare to Eden, 1/5/1944.
In fact, Germany apparently managed to import 40 metric tons of pure wolfram on submarines in 1944 (IWM CIOS Evaluation Report 283, Translation of a special report by Admiral Groos for Keitel, 5/1/1945).

[687]`No other Spanish products come even close in importance to wolfram´
(FCO AA89/103414-6, Telegram, Becker to German Foreign Ministry, 9/5/1944, author´s translation, C.L.).

[688]FCO AA89/102517-9, Telegram, Dieckhoff to German Foreign Ministry, 23/2/1944.

[689]See for example PRO FO371/49548/2782, Letter, Ellis-Rees to Garran, 26/2/1945.
According to Ellis-Rees `there is no doubt that the Germans and their Spanish dupes hoodwinked to some extent the competent Spanish authorities and the Government, who were genuinely trying to carry out their undertaking to us under the terms of the Wolfram Agreement;...´

not supportive of SOFINDUS´s efforts to circumvent the May agreement. In a meeting with General Krahmer, German military attaché at the Madrid embassy, and Bernhardt, General Vigón, Spain´s Air Force Minister, promised to help Germany to obtain sufficient amounts of wolfram in return for supplies of air force material. According to Krahmer Vigón then went on to declare:

> He obviously wished that Germany should receive as much wolfram from Spain as possible. He indicated that General Franco shared the same wish and that he [Franco] was convinced that the German officials in Spain would be able to smuggle sufficient amounts of wolfram across the border. General Vigón seemed to think that his support would be confined to supplying us [Germany] with wolfram as compensation. The transport of wolfram out of Spain, however, would be left to us.

Despite these assurances Bernhardt remained somewhat sceptical. He emphasized that the Spanish Ministry for Foreign Affairs clearly tried to apply the regulations of the agreement with the Allies quite strictly. Smuggling was apparently not quite as easy as Vigón might have believed it to be. Vigón therefore promised to discuss the whole matter with Franco, Carceller and General Davila, and to keep the Foreign Ministry in the dark. Further details were to be discussed later.[690]

Ultimately, SOFINDUS could be enormously satisfied about its smuggling efforts. Instead of just the permitted total of 40 metric tons for May and June, SOFINDUS smuggled an extra total of 443 metric tons in April, May and June out of Spain.[691] Yet, inspite of the attempts of SOFINDUS to cover up their activities - open purchases were stopped, secret wolfram stores were used - the Allies got wind of them. In a report on smuggling Hoare provided evidence on four separate incidents between 28 May and 8 July when Germans, with the

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690BA/MA RW19/440, Memorandum by OKW *Fwi Amt (Ausl) 2./IIIb,* 12/6/1944 [author´s translation, C.L.].
691FCO AA89/103585f., Telegram, Dieckhoff to German Foreign Ministry, 22/6/1944; see also K.- J. Ruhl, *Spanien im Zweiten Weltkrieg,* p.242.

help of Spanish employees but also Spanish officials, managed to smuggle altogether approximately 125 metric tons into France.[692] This amount had been removed from the enormous stocks of wolfram Germany had accumulated in warehouses in Irún. By June 1944 these stocks still amounted to about 650 metric tons.[693] According to Medlicott combined German stocks at Campanas and Irún were even as high as 1,031 metric tons on 25 August 1944 when, on orders of the Spanish government, they had to be removed to Madrid after the German withdrawal from the Franco-Spanish border.[694]

The dramatic reduction of German access to Spanish wolfram had a similarly dramatic effect on its price. Whereas in July 1944 wolfram prices still stood at about Pts 180 a kg, they had dropped to Pts 20 by September.[695] Clearly, the `wolfram rush´ was over. At the same time, German wolfram mining in Spain was being reduced and finally given up. Mining tonnage had already decreased from 253 metric tons of wolfram ore in May to 223 metric tons in June and 143 metric tons in July.[696] On 1 October 1944 production in the last two operational German wolfram mines, El Eje and San Nicolas, was stopped on direct orders from Bethke.[697] In a letter to Sabath he explained his reasons for this decision:

> I had to give instructions for the cessation of wolfram production because the accumulation of further wolfram mining companies on German account in

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[692]PRO FO371/39657/9908, Report by Hoare, 20/7/1944.
There is evidence that some of the SOFINDUS trucks which smuggled wolfram from Spain to Germany were used to transport just over 2,582 kg of gold from Germany to Spain in July 1944. The gold originated in the Reichsbank and was sold via ROWAK/SOFINDUS to the Spanish Government. In total, the *Instituto Española de Moneda Extranjera* paid Swiss Francs 11,058,957 into accounts held by Banco Alemán Transatlantico, Madrid in Switzerland (BE DE-IEME.*Secretaría Caja* 160, Memorandum on gold sold by the Germans to Instituto Español de Moneda Extranjera in Summer of 1944, American embassy in Madrid (?), 19/1/1948).
[693]BA R7/736, Letter, Gehm (*Fachabt. Ferrolegierungen, Krefeld*) to *Oberberghauptmann* Gabel, 12/6/1944.
[694]W.N. Medlicott, The Economic Blockade II, p.581.
[695]BA R7/3404, Monthly report by RWM *Abt. III Ld 1-3* for September 1944, 10/9/1944.
[696]BA R7/736, Letters, Ehlert (Madrid) to *Eildienst für Aussenhandel und Auslandswirtschaft Berlin*, 12/10/1944 and 13/11/1944.
[697]BA R7/737, Report, SOFINDUS to ROWAK, 23/10/1944.

Spain is neither necessary from a supply point of view nor acceptable from a foreign currency point of view.[698]

The Spanish government tried to stop SOFINDUS from closing its mines because of the increased unemployment it would bring to the affected mining areas. But as so often in previous years, Germany´s representatives in Spain found a way to circumvent this law through their contacts to local Spanish officials. The German wolfram campaign in Spain was over as far as the German government was concerned, but not necessarily for the Spanish government. A handwritten note in a RWM file from either the end of December 1944 or the beginning of January 1945 reports on the following extraordinary offer:

According to the AA [German Foreign Ministry] Span. circles have agreed to deliver wolfram supplies to La Rochelle from where they could be brought to Germany on trade submarines.
The proposition has been rejected by *R.A.Min.* Ribbentrop.[699]

Finally, there is some speculation, but no documentary proof that Germany transported some wolfram from Madrid to Germany by plane after the retreat from the Franco-Spanish border.

All evidence seems to suggest that there was no practical need anymore for such risky adventures. Valuable space on the Lufthansa planes flying from Spain to Germany was reserved for more important goods.[700] By June 1944 the German government was already prepared for the eventuality of a complete cessation of wolfram imports and, when the end came in late summer, this did not seem to have caused too many problems. After the Allied invasion of France in June 1944 Hitler gave the strict order to exploit German wolfram reserves far

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[698]BA R7/740, Letter, Bethke to Sabath, 13/10/1944 [author´s translation, C.L.].
[699]BA R7/740, Handwritten note by P. Bürkner (?) (RWM), probably end of December 1944 or beginning of January 1945 [author´s translation, C.L.].
[700]See next chapter.

more extensively than in previous years. These reserves were estimated at about 10,000 metric tons.[701] Germany had also already put some effort in exploiting wolfram reserves in France although first supplies did not reach Germany before the second quarter of 1944.[702] Altogether, German experts assumed that 75 metric tons of pure wolfram could be produced by spring 1945. Furthermore, the transport of wolfram from the Far East was to be continued in submarines which appears somewhat strange in the light of Ribbentrop´s rejection of the aforementioned Spanish proposition. Although the war thwarted most of these plans, other factors helped to make the cessation of wolfram supplies from the Iberian Peninsula bearable. Consumption was to be reduced from 135 metric tons of wolfram a month to 100 metric tons, and was eventually reduced even further. Most importantly, however, Germany had built up stocks which amounted to 1598 metric tons of pure wolfram on 1 May 1944. With the above reduction of consumption it was calculated that this would secure Germany´s requirements for a minimum of 17 and a maximum of 40 months.[703] Even without any such reduction stocks were estimated to last until April 1945.[704] In fact, according to Jäger, the wolfram supply situation was apparently so good in mid-1944 that the RWM considered substituting molybdenum, another ferro-alloy, with wolfram.[705]

Considering all these points one important question remains to be answered: Was the preemption campaign of the Allies at all successful, that is, did it have an effect on the German armaments industry? By 1942 Britain was

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701 J.-J. Jäger, *Die wirtschaftliche Abhängigkeit*, p.94f.
702 IWM-SC FD4885/45, Memorandum by OKW/*Fwi Amt Inl 2/II 2*, 3/9/1944.
703 BA/MA RW19/440, Memorandum by Holtmeier on wolfram imports from Spain and Portugal, 15/5/1944; BA R7/736, Letter, Gehm (*Fachabt. Ferrolegierungen*, Krefeld) to *Oberberghauptmann* Gabel, 12/6/1944; see also IWM-SC FD4885/45, Report by OKW/*Feldwirtschaftsamt*, 1/7/1944.
704 IWM-SC FD4885/45, Letter, OKW *WWirtStab* to Oberst Dr. Krull, 14/3/1944.
705 J.-J. Jäger, *Die wirtschaftliche Abhängigkeit*, p.282.

totally resolved to stop or at least minimize German wolfram imports from Spain and to impede the mining activities of German-owned mines. According to German sources at the time any method was used to get as much wolfram to Britain as possible and thereby deny it to Germany. In this context, not only the Germans used smuggling as an `export method´, but apparently the British also.[706] According to Dr. H. Kolbe, director of the German wolfram mine San Nicolas, he apparently had to organize a police troop to protect his mine against ore thefts conducted by groups led by Secret Service agents.[707] Whether these accusations have any foundation or not - and British documents do not provide any conclusive evidence - they indicate the crucial importance attached to wolfram in Allied economic warfare planning. With regard to Spain, wolfram preemption was the focal point of Allied economic policy decisions. Based on a simple comparison of Allied and German official wolfram purchasing figures for 1943 and 1944 the Allies had undoubtedly become far more successful than Germany.[708] However, the essence of economic warfare was not to win a `competition´ over which side would buy more of a specific raw material.

At the centre of economic warfare stood the denial of a specific material to the enemy so that the production of certain products would be severely affected. The evidence consulted by the author suggests that the sectors of Germany´s armaments industry involved in the production of hardened steel products were indeed troubled by wolfram import problems.[709] Until late 1942 Germany´s production of steel armour penetrating projectiles was entirely dependent on wolfram; only then did German scientists come up with a new projectile which

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[706]BA R7/735, Copy of a report by German Embassy, Madrid, to German Foreign Ministry from 14/9/1943, 20/9/1943.
[707]BA R7/962, Memorandum by Kolbe on his work as director of San Nicolas since 1 October 1943, 15/6/1944.
[708]See table 28 above.
[709]ADAP, E, V, doc.311, pp.615f., Memorandum by Wiehl, 16/4/1943.

could be produced without wolfram. However, most types of steel armour penetrating projectiles continued to be built with wolfram and production was therefore apparently restricted by a temporary reduction of wolfram imports from Spain. The conclusions of the Nazi leadership were therefore clear: The priority of wolfram over all other Spanish exports was re-emphasized and, even more dramatically, the term *kriegsentscheidend* (decisive for the outcome of the war) was applied to wolfram supplies from the Iberian Peninsula.[710] Some temporary improvement indeed took place, though only by using massive amounts of precious foreign currency[711], and by summer 1943 Germany found herself faced with the aforementioned even more serious financial troubles. In fact, in July 1943 Hitler had to ban temporarily the production of steel armour penetrating projectiles because of the problems over wolfram imports.[712]

In a sense, these problems were indirectly based on Allied preemption. Preemption alone did not reduce Germany's access to Iberian wolfram as there were always sufficient willing wolfram vendors and no sign of a reduction in mining activities appeared. However, Allied competition on the Spanish as well as Portuguese wolfram market caused at least enormous price rises which drained the already limited German resources and stretched the patience of the Spanish government with regard to Germany's massive trade deficit. Nevertheless, it was the Spanish government itself which helped to revitalize Germany's wolfram campaign. The Spanish payment of RM 100 million in autumn 1943 gave the Nazis the necessary means to continue with their

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[710]FCO AA3889/E048696, Memorandum by Wiehl on expected raw material supplies from Iberian Peninsula in 1943, 28/11/1942.
[711]BA/Pots 09.01/61164, Letter, Walter Funk to Ribbentrop, 7/4/1943.
[712]J.-J. Jäger, *Die wirtschaftliche Abhängigkeit*, p.281.
It is however interesting that, even during those periods when Germany was threatened with supply problems from the Iberian Peninsula, Hitler did not instigate the mining of the known German and French wolfram reserves to a much larger extent than actually took place. In 1942 the annual production of wolfram ore in Germany and France amounted to about 800 metric tons (ADAP, E, V, doc.311, pp.615f., Memorandum by Wiehl, 16/4/1943; see also BA/MA RW19/435, Enclosure 25 to War Diary No. 4 of OKW *Wwamt Wi Ausl IV a*, 30/1/1943; J.-J. Jäger, *Die wirtschaftliche Abhängigkeit*, pp.94, 160 and 278f.).

wolfram purchases. Although Germany´s concern about wolfram supplies from the Iberian Peninsula did not disappear completely[713], it was the US government who had now more reason for concern about Spain´s attitude. In fact, Germany was able quickly to build up large stocks of wolfram which would have lasted far beyond the end of the war.

In summary, it has to be emphasized that the entire wolfram campaign serves as an excellent indicator of the issues and problems involved in the war-time relationship between Franco and the Nazis. In importance, wolfram overshadowed all other raw materials - indeed all other goods - Nazi Germany imported from Spain during the period 1939-1945. During the period of frenzied rearmament in the 1930s German industry had not only developed more ways of using wolfram, but also increased enormously the amounts used. Then, Chinese wolfram in particular had been preferred to Portuguese and Spanish wolfram - and this despite the geographical closeness of the Iberian Peninsula. Wolfram from the Far East was cheaper and the production and export facilities there were better developed than the loose network of small Spanish and Portuguese mines. Yet, the Nazis did prepare for the eventuality of a reduction of Far Eastern supplies as shown by the fact that MONTANA included the acquisition of Spanish wolfram mines. Developments after the outbreak of war in 1939 demonstrated the need for such precautionary measures.

The war drastically reduced Germany´s access to Far Eastern sources, and Iberian wolfram became the focus of Nazi import activities. Yet, access to vital Spanish wolfram supplies during the war years proved to be a constant struggle for Germany. Franco´s victory in 1939 had deprived the Nazi regime of the extraordinary influence it had enjoyed in Nationalist Spain. Forcing Franco

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[713]In January 1944, Hitler insisted that more Spanish wolfram should be imported and that, in exchange, Germany should increase her supplies of war *matériel* to Spain (see previous chapter) (ADAP, E, VII, doc.177, pp.343f., Memorandum by Hewel, 22/1/1944).

to export wolfram would prove less easy than had been the case with iron ore and pyrites during the civil war. In fact, the ensuing problems over supplies of wolfram revealed how far the National Socialist dreams of using Spain as an "economic colony" of Germany had failed. Although the Franco regime was prepared to export ever-increasing amounts of wolfram to Germany, it demanded some form of payment, that is foreign currency, war *matériel* or manufactured goods, in return. When the Allies intensified their preemptive purchasing campaign of wolfram, in 1942 and 1943, prices were pushed up to exorbitant levels. Indeed, the Franco administration added to the cost of wolfram by first introducing and then increasing additional taxes on the raw material. Initially, little help was offered to German buyers whose purchasing funds quickly disappeared. In fact, only the realization that Germany´s withdrawal from the wolfram market in summer 1943 might become permanent, forced Franco to offer the Nazis the aforementioned RM 100 million payment on his civil war debt. Neither gratitude to Germany for her intervention in the civil war, nor ideological affinities, but least of all the fear of a German invasion - an often-used apology - had a major impact on this decision. In simple terms, wolfram had become a wonderful asset to the Spanish economy as well as the state, and a German withdrawal from the market would undoubtedly be followed by an end to Allied preemptive purchases, and finally the collapse of the wolfram market. The Franco regime could not allow this to happen. In helping Germany it managed to antagonize the American government completely and was punished by an oil embargo. Yet, even after Franco´s agreement with the Allies in May 1944, wolfram supplies to Germany never stopped entirely throughout the whole period until August 1944.[714] Two reasons help to explain Franco´s acquiesence in the face of Germany´s blatant violations of the agreement. Economic reasons were undoubtedly still high on

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[714]Portugal had stopped all wolfram exports on 8 June 1944 (BA/MA RW19/441, German Import Plans 1944, Report by OKW *Fwi Amt/ Ausl 2./IIIb*, 5/9/1944).

the agenda. Germany continued to supply some war *matériel* to Spain, and - even more importantly - Hitler had made sure that the German embassy in Madrid and SOFINDUS were endowed with sufficient funds to continue the wolfram campaign. A certain element of defiance can also be detected in Franco´s reaction to an agreement which he regarded as an imposition on his country. In the end, wolfram supplies to Germany only petered out because of the actual development of the war from summer 1944 onwards. Whatever remained of Spanish-German trade - and this will be discussed in the following chapter - wolfram only played a negligible role in it.

CHAPTER VI

EPILOGUE: GERMAN-SPANISH TRADE FROM THE ALLIED INVASION OF FRANCE TO THE END OF THE SECOND WORLD WAR

On 22 August 1944 an article appeared in The Times by its correspondent in Madrid on events which had occurred the day before. It featured a crucial development affecting German-Spanish relations: the abandoning of German military posts at both ends of the Franco-Spanish frontier and the Pyrenees. In the morning of 21 August 1944 Dieckhoff, the German ambassador to Spain, met the last German officers in Hendaye before they left town.[715] It was an obvious reflection of a decisive change in Spain's position that on the same day instructions were given to the press to observe genuine neutrality when commenting on military and international developments.[716] A four-year period of direct `neighbourly" relations between Germany and Spain had ended. Contrary to the views of some historians, most notably James Cortada, this did not mark the complete end of economic relations between the two countries.[717] Nevertheless, the last remnants of commercial relations between Germany and Spain were confined to increasingly irregular Lufthansa flights and the occasional blockade runner. As far as trade was concerned, the following will examine the consequences arising from Germany's withdrawal from the Pyrenees. It will concentrate particularly on three issues: the SOFINDUS-organised provision of the German-held Biscay ports from Spain, the Lufthansa air service, and the final activities of SOFINDUS and its officials.

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[715] The Times, 22/8/1944, p.4.

[716] S. Payne, The Franco Regime, p.337.
The only exception to Franco´s instructions concerned reports about the Soviet Union. Many Spanish papers, however, remained quite blatantly pro-Axis until the end of the war (D. Pike, "Franco and the Axis Stigma", pp.388f.).

[717] J. Cortada, United States-Spanish Relations, p.100.

From the Allied invasion of France in June 1944 until the German withdrawal from Hendaye, both Germany and Spain desperately tried to continue a near-normal trading relationship. The danger of a possibly total disruption of transport links from Spain to Germany had stimulated German officials into last-ditch efforts to get as much valuable material out of Spain as possible. This proved to be quite difficult owing to increased Allied air raids and attacks by the French Resistance against German rail and road links in France. While goods still found their way quite speedily to the main border points, Irún/Hendaye, Portbou/Cerbère, the infrequent availability of transport opportunities in France caused enormous problems for the further transit of goods to Germany.[718]

SOFINDUS, already heavily involved in attempts to transport Spanish goods by rail and road to Germany, made one last effort to ship ores and other goods. The British Economic Advisory Board (EAB), which closely observed German merchant shipping activities, reported at the end of July 1944 that Germany was trying to keep a sea-borne trade going between the Spanish west coast and southern France, using small Spanish vessels. However, the report continued, this was heavily disrupted by `Allied counter measures.´ In fact, Germany had to cease the last remnants of an increasingly irregular sea-borne trade in early August.[719]

The main thrust of exports from Spain to Germany remained, therefore, confined to the rail links. The Allies tried to keep a close eye on these exports. In July 1944 Ellis-Rees reported to the Foreign Office that the Germans were still exporting 45,000 tons of iron ore a month from Spain `to enemy-occupied

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[718]FCO AA89/103566, Telegram, Becker (Madrid) to German Foreign Ministry , 14/6/1944; FCO AA89103592, Telegram, Bibra (Madrid) to German Foreign Ministry , 26/6/1944.
[719]FCO AA89/103584, Telegram, Becker to German Foreign Ministry , 22/6/1944; BA/MA RM35 II/66, War diary of the *Marinegr. Kdo West*, 1/8-30/8/1944; PRO FO935/147, Report by EAB on Enemy Merchant Shipping Activity Jan/June 1944, 26/7/1944.

territory.´[720] Although it is difficult to ascertain whether these amounts reached Germany, whether they had to be left behind in France, or whether they even had to be re-imported into Spain, some exports definitely arrived in Germany. Between 26 July and 16 August 1944, for instance, Minerales de España exported about 3000 metric tons of lead into Germany.[721] In general, however, there is little precise evidence on Spanish-German trade in the two-months period between the Allied invasion of France and the German retreat from the Pyrenees. Unfortunately, most statistics concentrate on 1944 as a whole or divide figures for 1944 into two six-monthly periods.

Obviously, when the last German troops eventually withdrew from the Franco-Spanish border there was a dramatic change in the commercial relationship between Spain and Germany, and the activities of ROWAK and SOFINDUS-officials in Germany and Spain.[722] With all road and rail transport routes blocked, ROWAK´s main remaining task consisted of the organization and execution of the transport of important goods via air (and possibly sea) and to continue trade to the extent it was still possible. Priority lists were drawn up to include products of importance for the German war effort which could be transported by air. According to one priority list, the RWM introduced four priority levels for the transport of Spanish and Portuguese goods by air. (see table 31)

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[720] PRO FO371/39773/2006, Report by Ellis-Rees, communicated to Mr. Roberts, 3/2/1944.
[721] BE/DE-IEME. *Giros/Caja* 1541
[722] On 19 August 1944, the RWM ordered that iron ore transports from Spain to stores on the French side of the border had to be stopped (BA R121/661, Letter, ROWAK (?) to *Reichsvereinigung Eisen*, 19/8/1944).

Table 31: PRIORITY LEVELS FOR TRANSPORT OF GOODS BY AIR

LEVEL I

Dried intestines - vitamin concentrates - iodine - insulin and folliculin

LEVEL II

Mica from Portugal (c.1.5 metric tons) - dressed skins from Portugal (c.7.5 metric tons) - molybdenum concentrate from Portugal (only by courier) - wolfram concentrate (transport probably not possible for reasons of Spanish foreign policy)

LEVEL III

Penny-royal oil up to a total of 6 metric tons - cardigans c.15 metric tons, at the moment stored at Co. General de Lanas in Terranzas

LEVEL IV

To be used as filling material: lemon concentrate up to 17 metric tons.

Source: BA R121/3, Letter, RWM *Abt III Ld.1-3* to Sabath, 21/11/44 [author's translation, C.L.].

Along with the task of continuing a limited trading relationship with Spain, ROWAK was also faced with decisions on the future of the SOFINDUS-companies in Spain. As the advance of the Allies continued and the SOFINDUS-companies in Spain became increasingly cut off from export possibilities to Germany, there remained the choice of either finding new business opportunities or closing operations down completely. Amongst individual companies, Corchos de Andalucia closed down at the end of September 1944 after it had concluded the nine months up to 30 September with a loss of Pts 700,000.[723] The wine merchants Scholtz Hermanos reported a loss of Pts 433,000 up to the end of September 1944. Though deprived of their German export market, they hoped to be able to continue their business

[723]BA R121/829, Provisional balance sheet of Corchos de Andalucia, 30/9/1944.

activities. In fact, the company drew up plans to sell its merchandise on the Swiss market which had become the biggest buyer of Spanish wine in 1944.[724]

Another member of the conglomerate of SOFINDUS companies, Compañia General de Lanas (Lanaco), was involved in several major last-minute deals. Its products were of particular importance to the German war effort as the German army continued to be in desperate need of woollen products for its troops. One of the operations, codenamed *Aktion Hamburg*, started in the middle of June 1944. It involved the sale of about 92 metric tons of cleaned wool through ROWAK to a company in Berlin-Dahlem. The whole deal was worth about Pts 5.7 million and should have been concluded by the beginning of July 1944. However, almost 14 metric tons never left Spain because of the military developments. By December Lanaco had managed to sell them in Spain.[725] Lanaco was also involved in the attempt to export 30,000 cardigans to Germany in November.[726] These were supposed to come by plane together with a load of gunpowder bags, but in December the German embassy at Madrid rejected the export on the grounds that Spanish law had made such transactions illegal.[727] This attitude contrasted sharply with the reaction to a previous illegal attempt to export textiles from Spain. In August 1944 the Spanish government had apparently withdrawn under Allied pressure an export licence for textiles, worth Pts 65 million. However, the RWM reassured the *Reichsstelle für Kleidung* that Carceller had only suspended the export. He was apparently waiting for large raw material deliveries from the Allies, which were already on their way, before he would do something which counteracted Allied demands. Again, Spanish

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[724]BA R121/765, Provisional balance sheet of Scholtz Hermanos, 30/9/1944.
There is no evidence to suggest whether Scholtz Hermanos were successful in their new business plan.
In 1944 Spain exported 72.4 million litres of wine. Switzerland acquired 38.8 million litres, Germany only 2.4 million (BA R7/3020).
[725]BA R121/660, Letter, Lanaco to Hardt & Co. (Berlin), 1/2/1945.
[726]See table 31, Priority List Level III.
[727]BA R121/660, Telegram, German Embassy to ROWAK, 18/12/1944.

government officials displayed their Janus face. The RWM concluded from Carceller's remarks that the Spanish government would connive at the illegal export of these textiles. There was therefore no reason to stop it. Yet, it is not certain that Lanaco indeed managed to export them.[728] What is known is that one of Lanaco's most ambitious operations in Summer 1944 resulted in failure. After having bought up at least 200,000 woollen blankets by August they were not able to export them to Germany. This time they were not even able to sell their stocks in Spain as the Americans were successful in their threat to put any buyer on the blacklist.[729]

The SOFINDUS-mining companies were obviously most affected by the loss of rail links to Germany. Whereas, from the agreement between the Franco-government and the Allies in May to the German withdrawal from the Pyrenees in August, the smuggling of wolfram had still been possible, even this way of keeping the mines going had now all but disappeared. It became clear that the wolfram mines would not find a buyer for their products anymore. Germany could anticipate only the occasional delivery of small amounts of wolfram by plane, the Allies were for very obvious reasons not interested in German-mined wolfram, and there were more than enough Spanish mines to supply Spanish requirements. Wolfram, however, was not the only raw material SOFINDUS had been mining or buying up. In 1944 five sectors of German mines still existed: sector I - iron; sector II - fluorspar; sector III - ambligonite and tin; sector IV - lead; and sector V - wolfram.[730] However, a new Spanish mining law, which had been signed by Franco on 19 July 1944, was making it even more difficult to operate the mines. Officially, the share of foreign ownership of the capital of Spanish mining companies was now limited to 25 per cent instead of the previous 40 per

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[728]BA R121/660, Letter, RWM to *Reichsstelle für Kleidung*, 12/8/1944.
[729]BA R121/660, Telegram, Lanaco to ROWAK, 8/8/1944, and Telegram, SOFINDUS to ROWAK, 13/3/1945.
[730]BA R7/744, Report, Wahle and Bernhardt to ROWAK, 5/1/1945.

cent. Unofficially, not even special ministerial approval - which had helped SOFINDUS in the past - could lift the share of foreign capital above 49 per cent. The Spanish government threatened compulsory expropriation in case of violation of these clauses. A very important element of the new law was that the Spanish government reserved itself the right to demand total Spanish ownership of mines with specific interest for the defence of the country.[731] This new mining law was further proof that the Franco Government was trying to adopt - at least officially - a more neutral and independent stance.

Yet, it was not the new mining law which affected the SOFINDUS-mining companies so much as the new military situation. After all, they had enough contacts to Spaniards to fulfil the requirements of the law with the help of front men, a practice they had applied since the first Nationalist mining laws in the civil war. After the loss of rail links to Spain two criteria were now applied by the RWM and ROWAK to decide on the fate of German-controlled mines in Spain. Firstly, in the case of priority raw materials such as wolfram, was there a chance to continue with an, albeit limited, export to Germany? Secondly, the profitability factor was now applied to all German mines in Spain. Was there a Spanish market for the respective mining product? How much money was needed to continue with the mining process? How much mining equipment had to be imported from Germany? A number of mines were still in the preparatory stages. Was it worth continuing with these preparations? Mining officials in the RWM were worried that any equipment sent to mines in Spain might ultimately fall into the hands of the `enemy powers´, particularly because of the volatile attitude of the regime. Furthermore, it might be more sensible to use this equipment in Germany, or in mines in territories controlled by Germany.[732]

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[731] BA R7/736, Telegram, Kraus (Madrid) to *Oberberghauptmann* Gabel, 3/8/1944, and Note by Gross (Madrid), 5/8/1944.
[732] BA R7/736, Telegram, ? (Sender´s name unknown) to *Oberberghauptmann* Gabel, 3/6/1944 (?).

SOFINDUS acted according to the above considerations. With the exception of one mine near Irún, the iron mining sector was closed down immediately after the closure of the border. The last remaining mine was shut down towards the end of the year.[733] Only one mine, producing refined spar for the Spanish market, continued in the fluorspar sector.[734] Initially, at the end of August, the RWM decided that the ambligonite sector was to continue as normal, but by the end of the year it too had been abandoned.[735] By early January 1945, tin mines and mining projects were still running, as were some of the lead mines.[736] SOFINDUS was cutting down wages and shedding Spanish employees to keep down costs.[737]

Yet, the German employees had also to be considered. What was left to do for those SOFINDUS-officials such as Bernhardt who still continued to work in Spain in those remaining months until the German capitulation? SOFINDUS still enjoyed good contacts to many Spanish officials in the government and the army, as well as to individual Spanish companies and customs officials. While Franco appeared increasingly eager to climb onto the Allied `band waggon'[738], an influential number of his officials was still willing to assist SOFINDUS. In late March 1945, the British Embassy in Madrid had to acknowledge `the continued assistance given to Bernhardt by influential elements of Spanish

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[733]BA R7/737, Report, SOFINDUS to ROWAK, 23/10/1944; BA R7/744, Report, Wahle and Niessen (SOFINDUS) to Bernhardt, 5/1/1945.
[734]BA R7/737, Report, SOFINDUS to ROWAK, 23/10/1944.
[735]BA R7/736, Letter, RWM to *Oberberghauptmann* Gabel, 31/8/1944; BA R7/744, Report, Wahle and Niessen (SOFINDUS) to Bernhardt, 5/1/1945.
[736]BA R7/744, Report, Wahle and Niessen (SOFINDUS) to Bernhardt, 5/1/1945.
[737]BA R7/736, Letter, RWM to *Oberberghauptmann* Gabel, 31/8/1944.
[738]PRO FO371/39830/15951, Comment by ? (FO), 28/11/1944.
This comment was in reaction to Franco's recent attempts to endear himself with Churchill. On 18 October 1944, Franco had sent a letter to Churchill in which he had tried to play on Churchill's apparent anxiety about the danger of a Sovietization of Eastern Europe. He offered Spain as a true ally against this danger in an attempt to normalize Anglo-Spanish relations. However, Churchill replied in hostile terms and reaffirmed his loyalty to the Anglo-Soviet alliance (F. Portero, *Franco aislado, la cuestion Española (1945-1950)*, Madrid:1989, p.49ff.; D. Pike, "Franco and the Axis Stigma", p.390; S. Payne, The Franco Regime, p.337).

government.´[739] Apparently, Bernhardt used these contacts as well as he could to support the remainder of the German war effort, but, most likely, to prepare for his own future, too.[740]

A striking example of the efforts of Nazi officials in Spain can be found in the way SOFINDUS managed to supply Germany with penicillin, which the United States had exported to Spain. On 23 October 1944, Bernhardt sent a telegram to Koerner via ROWAK informing him that `after surmounting the greatest difficulties´ SOFINDUS had received `Penezilin´ (sic) by air from the United States. Somehow - and the documents do not reveal how - Bernhardt had managed to divert some or all of the penicillin, which had been destined for Spain, to Germany. The operation was apparently concluded successfully when Bernhardt reported to Koerner three days later that the penicillin would arrive on the next plane. It was to be delivered by the pilot, and stored in a thermos flask.[741] The espionage network of the Allies in Spain must have detected this re-export very rapidly. According to Viñas the Allies discovered the same month that the penicillin had been re-exported to Germany.[742]

When, in August 1944, The Times reported that `Germans in Spain and Portugal are ... reduced to relying on the Lufthansa as the last tenuous link with their fatherland and the dispatch of their diplomatic mails´ it touched on one of

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[739]PRO FO371/49549/3918, British Embassy to FO, 24/3/1945.

[740]In April 1945 Bernhardt transferred a large sum of money from Spain to Lisbon, probably to prepare an escape route, if needed (BE DE-IEME.*Secretaría Caja* 160, Memorandum on gold sold by the Germans to Instituto Español de Moneda Extranjera in Summer of 1944, American embassy in Madrid (?), 19/1/1948).

[741]BA R121/763, Telegram, Bernhardt to ROWAK for permanent secretary Koerner, 23/10/1944, and Telegram, Bernhardt to ROWAK for Koerner, 26/10/1944.
In February 1979 an article, "Spain continued Nazi Aid despite Pact", appeared in the Washington Post in which its author, Thomas O´Toole stated that the Penicillin arrived at Berlin Tempelhof airport on 25 October 1944. He referred to Bernhardt´s telegram from 23 October, but does not mention the second telegram which makes the 25th as the arrival date unlikely (quoted by D. Pike, "Franco and the Axis Stigma", p.387).

[742]A. Viñas, *Politica comercial exterior*, p.418. Unfortunately, Viñas does not reveal his source of information.

the remaining thorns in the flesh of the Allies. As can be seen from the prohibited re-export of penicillin outlined above, the Lufthansa link was not only used for the transport of people and mail, but this happened to be the justification given by the Spanish government to the Allies why it wanted to keep the planes flying. The Spanish government argued that `the service is essential to Spain in order to maintain contact with its diplomatic missions in Central Europe.´[743] Yet, it was quite clear to the Allies that the Lufthansa service was used for much more than that. The American government, in particular, pressed hard for the suspension of the service. It based its demand on the argument that the Lufthansa planes passed over military lines and could therefore be used for espionage.[744] It was not so much the espionage factor which concerned the British government. It argued quite rightly that - at least at the end of 1944 - the Lufthansa planes were not flying over French territory.[745] If they were concerned about espionage aspects, then it had more to do with the possible transport of German agents out of Spain (or possibly still into Spain). The British government (but also the American) was far more concerned with the possible transport of `substantial quantities of merchandise.´ The Foreign Office did not believe for one moment that the Spanish government was using the Lufthansa service for the movement of its diplomatic personnel. One official in the Foreign Office went so far as to wonder `whether they are using it at all.´[746]

The British were certainly right in their assessment of the use of the Lufthansa service. The documents reveal clearly that Lufthansa planes were used to transport as many Spanish (and Portuguese) goods to Germany as

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[743]PRO FO371/39830/13785, Telegram, FO to British Embassy (Madrid), 16/10/1944.
[744]*Ibid.*
[745]PRO FO371/39830/15258, Comment by R. Garran (FO), 11/11/1944.
The Foreign Office could see no difference between the Lufthansa service and the BOAC service which had continued between Britain and Lisbon throughout the war. F.K. Roberts argued that as long as Lufthansa did not fly over France, there was no legal case against it (PRO FO371/39830/15951, Comment by F.K. Roberts, 21/11/1944).
[746]PRO FO371/39830/15258, Letter, Bowker (Madrid) to FO, 5/11/1944; PRO FO371/39830/15893, Comment by R. Garran, 18/11/1944.

possible. Large amounts of goods produced or bought by SOFINDUS-companies in Spain had had to be stored there after the loss of rail and road links to Germany(see table 32). Just before the Allies finally reached the Pyrenees 275 waggons with 2950 metric tons of Spanish goods on board had to brought back into Spain from Southern France.[747]

Table 32: SELECTION OF GOODS STORED IN SPAIN AFTER AUGUST 1944

DATE	PRODUCT	AMOUNT	STORAGE SITE
Sept. 44	Lead	822,142 kg	Irún (1)
	Iron pyrites	730,760 kg	Irún (1)
	Iron ore	236,580 kg	Irún (1)
	Pistols	3639	Irún (1)
5/10/44	Mica	13,651 kg	Irún (3)
6/10/44	Wolfram	a. 120,000 kg	not known (2)
9/10/44	Lead	a. 2,800,000 kg	Irún,Hendaye or Pasajes (2)
19/10/44	Pyrites	837,760 kg	Irún (4)
19/10/44	Leather	327,700 kg	Pielexport (2)
Dec. 44	Wool	13,670,000 kg	Co. General de Lanas (5)

Sources: (1) MAE R2149/7; (2) BA R121/764; (3) BA R121/662; (4) BA R121/661; (5) BA R121/660.

As pointed out previously some of these commodities - and other goods purchased after August 1944 - were so important to Germany that they were listed according to priority and destined for transport by air.[748] According to an IEME paying order Germany received fish liver oil worth RM 650,000 from Spain

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[747]BA R7/3404, Monthly report on Spain compiled by RWM *Abt III Ld 1-3*, August 1944. According to the Director General of Spanish customs at Irún 150 waggons were sent from Hendaye alone back to Irún (MAE R2149/7).
[748]The Foreign Office was particularly aware of the export of food concentrates, vitamins, fish liver oil, and tin (PRO FO371/39830/15258, Letter, Bowker (Madrid) to FO, 5/11/1944.

as late as March 1945.[749] The main problem seemed not so much the regularity of flights between the two countries, although this factor obviously worsened during those last months of the war,[750] rather there appeared to have existed a problem of indecisiveness about what kind of freight should be sent. In December 1944, SOFINDUS complained to ROWAK that planes returning to Germany did not contain enough freight. ROWAK was advised to make up its mind about the kind of freight to be sent on Lufthansa planes.[751]

There can be no doubt that a limited commercial relationship continued between Spain and Germany. The Spanish government did agree to extend the economic *Zusatzabkommen* between Germany and Spain for another year. The original *Zusatzabkommen* from 18 August 1943 had been an extension to the economic treaty between the two countries dating back to 16 December 1942. It was supposed to last until 30 November 1945, but was obviously cut short by the ensuing events.[752] The German government officials involved did not regard a situation without economic agreement as a problem but it was simply appropriate to extend the treaty. They based their apparent casualness on their assessment of the volume of German-Spanish trade which still existed at the time of the negotiations. On 24 October Bibra, the German *chargé d'affaires* in Madrid, received a memorandum from the RWM on this matter. It stated that in September only 2.2 tons of goods were exported to Spain by air, which comprised a value of about RM 220,000. Most of the goods were made up of pharmaceuticals, high-quality paints and similar products. During the same period Germany received from Spain mainly medical raw materials, cutgarn for

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749BE/DE.IEME.*Giros/Caja* 1541, Bill, Banco Aleman Transátlantico to IEME, 24/3/1945.
750In December 1944 `Lufthansa planes were leaving daily with quantities of merchandise on board´ (A. Viñas, *Politica comercial exterior*, p.418).
According to Medlicott, Lufthansa flew to Germany on average once or twice a week at the beginning of 1945 (W.N. Medlicott, The Economic Blockade II, p.619).
751BA R121/763, Telegram, SOFINDUS to ROWAK, 4/12/1944.
752FCO AA6502H/E487171f., Telegram, Bibra to German Foreign Ministry , 5/12/1944.

surgical purposes and similar high-quality goods of low weight.[753] This clearly draws a very bleak picture as far as the trade relations between the two countries were concerned.

Yet, the statistics of the Bank of Spain indicate a better overall trade situation during the last phase of the war. Unfortunately, there are no specific figures for September 1944 to compare with the RWM-memorandum about the kind and amounts of goods sent from Spain to Germany, and vice-versa. Moreover, the statistics only reveal the figures for the whole of 1944 which makes it impossible to arrive at conclusions on Spanish exports and imports after the German withdrawal from the Pyrenees. The clearest indication of the continuation of more pronounced commercial relations are the figures for 1945 ending in the case of Germany with its capitulation in May. However, as the value of exports and imports is only provided in Pounds Sterling, it is not possible to know the exact amounts in tons of individual types of merchandise. (see table 33)

Table 33: SPANISH EXPORTS IN 1945 (in £)

PRODUCT	TO GERMANY	TOTAL EXPORTS
Cork	2,485	1,257,428
Fluorspar	77,064	79,556
Lemons	570	561,381
Mica	60,510	68,911
Iron ore	8,568	3,249,304
Various minerals	1,823	19,937
Oranges	192	5,577,350
Copper pyrites	2,596	298,174
Special supplies	63,475	77,771

Source: BE/DE-IEME.*Estadística/Libro* 22868.

[753]FCO AA6502H/E487166f., Memorandum by Schüller, 24/10/1944.

The statistics in the above table show clearly that Germany disappeared totally or almost completely from certain markets where she had been dominant or very active before. Official wolfram exports had stopped completely although continued concern about large stocks of wolfram in Spain seems to indicate that wolfram was still exported to Germany.[754] The export of oranges and lemons to Germany had been reduced to a trickle. But the statistics also reveal some surprises. As far as fluorspar and mica were concerned, Germany took 97 and 88 per cent respectively of the total value of Spain's exports. This poses the question why Germany decided mainly on the import of these two products. Fluorspar, also known as fluorite or calcium fluoride is used in the manufacture of opaque and opalescent glass. The inferior grades are used as a flux in steel-making and for foundry work. Finally, fluorspar plays an important role in the production of aluminium. This seems to be the most likely explanation for Germany's interest in this mineral. Mica has many uses, particularly in electrical and visual environments and in high-risk environments. Yet, to explain Germany´s interest in mica, its use in the production of submarines has to be emphasized. German industry used mica mainly in the manufacture of insulating material, gauges, compass cards and lubricants, although many other uses are known.[755]

How did the Spanish government and Spanish industry react to being cut off from products such as machinery, chemical and pharmaceutical goods which had mainly been supplied by Germany? One option they obviously took was to look around for suppliers which could fill the gap. Great Britain and the United States were the obvious sources but Switzerland also continued to supply the Spanish market. Generally, however, there appeared a clearly visible decrease

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[754]In December 1944, SOFINDUS reported about the pressure of the Allies on the Spanish Government with regard to the German wolfram assets (BA R121/764, Telegram, SOFINDUS to ROWAK, December 1944). By February 1945 the Allies were still "chasing" German wolfram stores in Spain (PRO FO371/49548/2782, Letter, Ellis-Rees to R. Garran, 26/2/1945.

[755]Rutley´s Elements of Mineralogy, pp.228f. and pp.397-9.

in the value of imports in a year when Spain became gradually ostracized by most other nations. (see table 34)

Table 34: SELECTION OF GOODS IMPORTED BY SPAIN IN 1944 AND 1945 (in £)

Country	1944	1945
APPLIANCES AND INSTRUMENTS		
Germany	172,586	1,345
Switzerland	140,035	124,920
TOTAL	328,325	159,421
PLANES AND SPARE PARTS		
Germany	2,388,717	931,640
USA	110,270	154,970
Britain	27,273	-
TOTAL	2,534,385	1,087,783
SHIPS		
Germany	47,857	3,126
TOTAL	59,326	3,504
ELECTRIC GOODS		
Germany	362,933	14,419
Switzerland	1,103,462	729,181
USA	117,057	366,538
Britain	20,339	121,788
TOTAL	1,758,202	1,382,373
PHARMACEUTICALS		
Germany	518,853	66,476
Switzerland	283,612	135,027
Britain	49,123	137,152
TOTAL	981,619	530,640
CHEMICALS		
Germany	461,814	57,811
Switzerland	171,822	304,966
Britain	354,044	782,432
TOTAL	1,690,148	1,447,854

Source: BE/DE-IEME.Estádisitica/Libros 22865 and 22867 [author's translation, C.L.].

Furthermore, the Spaniards applied exactly the same method as SOFINDUS did in Spain: goods already purchased were stored in safe places

until an appropriate moment when the goods could then be transported safely. As Germany did not seem to be the safest place in that respect, the Spanish government arranged for storing facilities in Switzerland.[756] As late as January 1945, the Spanish Ministry for Industry and Commerce published an official announcement that Spanish companies could apply to the ministry to have German goods paid before 11 August 1944 sent via Switzerland.[757] As could be expected from the large amounts of bulky items which had been ordered from Germany, these storage facilities were full by the end of 1944. Spanish government officials, therefore, approached the RWM about the possibility of storing German goods in another neutral country which still had some links to Germany, that is, Sweden. Unfortunately, the documents do not reveal if anything came of that plan.[758] Spain was also faced with the problem that many goods they had bought from Germany were abandoned in France when the German army retreated. It often took long and not always successful discussions with the Allied representatives in Madrid and the provisional French Government to arrange for the transport of these goods to Spain. At the beginning of November 1944, the Spanish Government was, for example, still negotiating about German train waggons loaded with war *matériel* which had been abandoned in France.[759]

Undoubtedly, one of the more dramatic episodes of the period under consideration has to be the supply of the German-held ports on the French Atlantic coast. As could be expected on such a contentious issue, the Spanish documents in the Ministry of Foreign Affairs reveal nothing at all about these activities. Most of the information on the history of this supply programme

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[756] A. Viñas, *Politica comercial exterior*, p.418.
[757] BA/Pots 25.01/5020/1, *Nachrichten für Außenhandel* No.8, 10/1/1945.
[758] BA R7/3020, Report on Spanish economy from 15/11-31/12/1944 by RWM Abt. III, 12/1/1945.
[759] MAE R2149/7; A. Viñas, *Politica comercial exterior*, p.418.

emerges from British and American sources as well as the War Diary of the OKW.

While the German forces in the West were being pushed back by the advancing Allied troops, a number of German garrisons on the French Atlantic coast became isolated from the ever diminishing `German Empire.´ Some of these ports on the French Atlantic coast were given up or fell soon after; the German defenders of Boulogne and Calais, for example, surrendered on 23 September and 1 October respectively, Le Havre had been conquered by the Allies on 12 September.[760] However, apart from the Channel Islands, a number of other outposts - Brest, Lorient, St. Nazaire, Gironde-South, Gironde-North, La Rochelle and Dunkirk - remained under German control. More concerned about the rapid driving back of the main German forces in France, the American military command took the view that these German garrisons, whose individual strength varied from 40,000 German troops in Brest, to 28,000 troops in St. Nazaire, and 5,700 in Gironde-North, were doomed to fall sooner or later as they were surrounded by Allied forces.[761] It would be a waste of Allied human resources and time to try to conquer these strongly fortified ports when it was much easier to starve them out and expose them to air attacks to wear the garrisons down. However, the Free French forces disagreed with this view. To them it was a question of pride to liberate these German strongholds with ground attacks.

For Hitler and the German High Command it was also a question of pride, but also the unrealistic hope that the garrisons would soon be reintegrated into German-occupied territory, which led to the decision to continue with their

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760P.E. Schramm (ed.), *Kriegstagebuch des Oberkommandos der Wehrmacht (Wehrmachtführungsstab)*, (thereafter KTB-OKW)Vol IV/1, Frankfurt a. Main/1961, p.453; M. Shulman, Defeat in the West, London:1947, p.191.
761BA/MA RM35 II/67, War Diary of *Marinegr. Kdo West*, 1/9-17/9/1944.

defence. It was also hoped that the garrisons might be able to disrupt some of the Allied supply operations and might also serve as a base for German submarines and blockade runners which were still active in the Atlantic. This was an ill-founded hope as the garrisons were barely able to support themselves and the Allies tried to keep a close eye on any activities in or near their harbour facilities which were also mostly damaged by Allied air attacks.

Early reports indicated that the garrisons had stocked some supplies to survive a longer siege. The German High Command had put the garrisons under the control of the Navy Command West from which it received a report on 21 October 1944 on the supply situation of Lorient and St. Nazaire. Stocks in both garrisons were apparently calculated to last for three months.[762] But it was quite clear that the garrisons had to find ways to supply themselves to keep their fighting power going - quite apart from having to feed the thousands of French civilians in these ports. The available figures indicate that in La Rochelle alone 39,500 French citizens remained under the control of the German defence troops, in Lorient 8,500 and in Gironde-North 6,500.[763] The French population of these garrisons found themselves in the ironic situation of having to cope with often fatal attacks by their own countrymen and their allies. On 9 January 1945, for instance, about 1000 civilians were killed in Gironde-North by a series of heavy air attacks while the German garrison remained completely unharmed. Both the British and the Free French government were in the difficult position of having to decide whether they should supply the German-held outposts with essential goods. After all there was the civilian population of the Channel Islands and the French Atlantic ports to consider. On the other hand, any supply of goods would very likely help the German troops to hold out even longer. As far as the Channel Islands were concerned the British War Cabinet decided on

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[762] KTB-OKW-IV/1, p.455.
[763] KTB-OKW-IV/2, p.1359.

7 November 1944 that it would send food and medicine to the Channel Islands - despite the reluctance of Churchill.[764] According to German reports La Rochelle received electricity, wood and some supplies from the Allies.[765] Part of the problem was solved by letting the Germans evacuate civilians but this again helped not only the civilians but also the German troops who were left with less mouths to feed. Although the German garrisons received some help from the Allies for the sake of the civilian population, essential goods for the defence of the garrisons such as war *matériel* were obviously not part of these humanitarian deals. The garrisons were supplied in several ways. German planes were sent to supply the garrisons, the garrisons tried to exchange supplies amongst themselves and they undertook sorties to enhance their supply position.[766]

One of the first suggestions which was made in October 1944 when the supply situation was checked, included the transport of goods on small ships from Spain.[767] This was not the first time that Spaniards had become involved in the history of the occupation of the Channel Islands and the Atlantic garrisons. In late 1941 Hitler had `recommended that Spanish communists should be employed´ to build strongpoints on the Channel Islands and in May 1942 a German soldier wrote back home that Alderney was `overrun with Frenchmen, Berbers, and Spanish Reds.´[768] Whereas this report is proof for the use of imprisoned Spanish Republican exiles as forced labour by the German authorities in France, the plan to use Spanish ships in the supply of the garrisons involved a voluntary and profitable, though very risky business for

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[764]C. Cruickshank, The German Occupation of the Channel Islands, Oxford:1975, p.269.
[765]KTB-OKW-IV/2, p.1359.
[766]One or two German planes apparently reached the garrisons regularly in December 1944, a number of planes landed there in early February 1945. In January 1945, La Rochelle supplied the Gironde-garrisons with troops and material (KTB-OKW-IV/2, pp. 984, 1095, 1089 and 1359).
[767]KTB-OKW-IV/2, p.455.
[768]C. Cruickshank, The German Occupation of the Channel Islands, pp. 181 and 166.

Spanish seamen. And, as usual, it involved SOFINDUS and Johannes Bernhardt, chief German coordinator in Spain for such clandestine activities. Reports in the *Kriegstagebuch* show that the plan was finally carried out. A report dated 3 January 1945 indicates that a ship from Spain had for the first time reached the Gironde with not only mail and other general goods for the troops but even Christmas parcels, a very welcome uplift for the morale of the encircled German troops.[769] A further report in the war diary on the first two months of 1945 reveals that several ships from Spain must have reached and supplied the garrisons.[770] This report, however, gives no indication about the kind of goods supplied.

The most revealing account about the supply of the ports from Spain comes from James Bowker of the British embassy in a report to the Foreign Office in April 1945:

> The Spanish government have adopted certain measures both naval and military and by way of tightening up police and customs control. All these measures have been rendered useless because certain high placed military authorities are involved in this lucrative traffic. Thus military lorries are used to bring [? gp. undec] into military area either for deposit with secret stores or direct loading of ships. In cases where customs police have succeeded in discovering secret supply dumps, orders from the military authorities have suppressed any proceedings.[771]

Bowker pointed out the profitability factor which had been so important in the cooperation of Spanish officials with German representatives throughout the whole of the war. Even less than one month before the total defeat of Germany this factor, combined with the still existing loyalty of a number of Spanish officials towards Germany, helped Bernhardt to arrange a small-scale supply operation for the German garrisons. There was no doubt in Bowker's mind that Bernhardt was the chief force behind the organisation of these ships and their

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769KTB-OKW-IV/1, p.984.
770KTB-OKW-IV/2, p.1359.
771PRO FO371/49549/4847, Telegram, J. Bowker (Madrid) to FO, 17/4/1945.

contents. On 28 April he sent a detailed summary list of ships and people involved in the supply operation. On top of the section on people involved appeared Bernhardt's name. Bowker added the following comment:

> It is known beyond any shadow of doubt that BERNHARDT, manager of the SOFINDUS COMPANY, is behind the whole organisation of purchase of ships and supplies and provisions for the supplying of the German garrisons.[772]

The list included other German employees of SOFINDUS, Spanish ship owners, Falangists and other Spaniards as well as a number of companies involved. By the end of April 1945 the garrisons were quite obviously still receiving supplies from Spain, though amounts and frequency of supplies are not clear.

Money to pay and, if necessary, to bribe Spanish officials, entrepreneurs, employees, *et al.* was obviously not in short supply. The German embassy was certainly well equipped to deal with even larger payments right up to the end of the war. Three weeks after the German capitulation The Times reported that, after the closure of the German Embassy in Madrid, the Spanish authorities had found large sums of Spanish money on the premises.[773] This is not surprising if it is considered that the German embassy had, for instance, received Pts 4,659,340 from Germany through the Bank of Spain on 24 August 1944.[774] The German government had clearly taken steps to provide its embassy in Spain with funds for the time of isolation ahead.

The British and American governments, and their embassies in Madrid, were deeply concerned about the continued activities of the German Embassy, but particularly SOFINDUS. By the beginning of 1945 the hunt was clearly on finally to destroy SOFINDUS. On 26 February Ellis-Rees from the Treasury

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772PRO FO371/49549/5531, Report by Bowker, 28/4/1945.
773The Times, 29/5/1945, p.3.
774BE/DE-IEME.*Giros/Caja* 1549

recommended Garran of the Foreign Office to concentrate `on present German clandestine activities.´ He drew Garran's attention particularly to Bernhardt and recommended that `it would do far more good to the cause to break up his organisation and get him and his principals expelled.´[775] The British government approached the American government on this matter and in March Halifax reported to the Foreign Office that the State Department agreed fully as to the importance of breaking up SOFINDUS.[776] Both Allies were extremely worried, not only by the continued activities of SOFINDUS, but particularly by the possibility that Spain and the German organisations active there might become a `safe haven´, or a springboard to Latin America for escaping Nazis and Nazi funds.[777] Bowker expressed this view at the end of March when he reasoned that `the best course would be to press for action against Sofindus as part of our safehaven requirements, especially as it now seems probable that safehaven negotiations will be initiated shortly.´[778]

Rumours were rife about this matter. Yet, in the end Spain did not become the hiding-place it was made out to become. Most of the Germans who had been active there in different areas such as commerce, espionage and military left Spain for Germany before, or were expelled soon after, the end of the war. Bernhardt was one of the luckier ones as he was able to escape to Latin America. When Pierre Laval tried to go into hiding in Spain, the Franco government handed him over to France where he was eventually sentenced to death and executed. In the end Franco was too clever or, more likely, too afraid to antagonize the Allies. In October 1945 he finally agreed to hand over control

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775PRO FO371/49548/2782, Letter, Ellis-Rees to Garran, 26/2/1945.
776PRO FO371/49549/3854, Letter, Earl of Halifax to FO, 21/3/1945.
777On 1 May 1945, Garran wrote to the British Embassy in Madrid that he had learnt `from a top secret and most reliable source ... that the German Embassy are planning to unload in Spain over 30 million French francs, which they have instructions to convert into pesetas notes´ (PRO FO371/49549/3854, Letter, Garran (FO) to British Embassy, 1/5/1945).
778PRO FO371/49549/3918, Telegram, Bowker to FO, 24/3/1945.

of SOFINDUS to the three Allied embassies in Madrid.[779] The German Embassy had already been taken over by the Allies in June after it had been closed down on 11 May.[780] However, these eventual acts of cooperation came too late to change the mind of the Allies about Franco's previous attitude towards the Axis. The years to follow were marked by the isolation of the regime at the international level.

It has been demonstrated that the Allied invasion of France clearly affected the commercial relationship between Germany and Spain. Yet, the effect was mainly based on the loss of rail links between Germany and Spain and not on the obvious fact that Germany was about to lose the war. Only half-heartedly did Franco and his government change their tune as far as their relations with the Allies were concerned. There were clear signs that Franco tried to woo the Allies, particularly in his letter to Churchill and the facilities he offered to Allied ships and transport planes. These were not signs of a newly-found friendly feeling towards the western democracies, but rather a recognition of the fact that he would depend on them completely for any future commercial aid and that he was almost certainly dealing with the future victors of the war.

Despite all grand plans for autarky it was clear that Spain would not be able to strengthen and rebuild its economy as well as feed its population sufficiently without foreign aid. Without considering certain factors it is therefore difficult to understand why the Spanish government continued to antagonize the Allies by not intervening strictly enough against German activities in Spain after August 1944. Despite continued assurances in sections of the Spanish press about Hitler´s final victory, most members of the Franco administration, including

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779PRO FO371/49565/12434, Report by Economic Warfare Department, communicated to Washington, 31/10/1945.
780The Times, 11 June 1945, p.3.

Franco himself, had given up hope. Yet, as long as Germany managed to pay for some goods, Spain was willing to sell them, even if the export of these products contravened Allied restrictions. It should not be forgotten that the Nazi regime still enjoyed some sympathy and loyalty amongst influential Spanish officials. Its decisive intervention in the Spanish Civil War was not forgotten and they shared a common enemy, Communism, represented by the Soviet Union. Franco did not trust the western Allies to deal appropriately with the apparent threat coming from the East. Many Spanish officers also still felt gratitude and loyalty to Germany because of the military support and training they had received during and after the civil war.

Last, but definitely not least, German officials - and particularly SOFINDUS - had used the previous years to establish a network of contacts with Spanish government officials, businessmen, Falangists, customs officers and other useful personalities. This network - in many cases based on extensive bribery - was still used during the last year of the war when the besieged German garrisons had to be supplied, raw materials had to be smuggled and arrangements had to be made to close down some German operations which involved the loss of Spanish jobs. The final commercial contacts between Germany and Spain after the Allied invasion contributed very little to the remaining German war effort. Yet, it can be argued that any amount of important goods which reached Germany helped to prolong the war. The case of the German garrisons is only one example for this argument. But in his twisted view of the war Franco could argue that official Spanish exports provided Germany with some of the aid it needed to continue as a bulwark against Communism. In the end Germany obviously failed in that respect and Spain had to suffer for its support for Germany, but also for the nature of its regime, by years of ostracization by the international community.

CONCLUSION

A recent study on the ideological origins of Nazi imperialism[781] has highlighted both the origins and the development of the *Weltpolitik* and *Lebensraum* policies in Wilhelmine, Weimar and finally Nazi Germany. In his final analysis of Hitler´s `imperialism´, Woodruff Smith concluded that `the disparity between *Lebensraum* and *Weltpolitik* was not ... eliminated by Hitler.´[782] He continues by arguing that `Hitler´s imperialist ideology also incorporated a substantial number of economic-imperialist ideas...´ and that he `clearly believed that *one* of the aspects of his overall policy included the establishment of a form of German economic hegemony over a vaguely defined (but large) segment of the European continent.´ In this context Smith emphasises Nazi Germany´s relationship with central and eastern European countries.[783] Yet, it must be concluded that National Socialist economic policies *vis-à-vis* the newly emerged Nationalist Spain also aimed at the inclusion of the latter into this `vaguely defined´ area.

Measured against Smith´s own conclusions on what constitutes *Weltpolitik*, Nazi Germany´s relationship with Franco Spain can be regarded as a perfect example of exactly such a policy. According to Smith the largest share of practically all aspects of the economic imperialism of *Weltpolitik* `was to be undertaken in places under varying degrees of *informal* German control´, that is not necessarily in formal colonies.[784] While there is no evidence that the National Socialist leadership developed any specific economic plans for Spain prior to the Spanish Civil War, Hitler´s, and

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781 Woodruff D. Smith, The Ideological Origins of Nazi Imperialism, New York/Oxford:1986.
782 *Ibid.*, p.238.
783 *Ibid.*, pp.243 and 245.
784 *Ibid.*, pp.70f.

especially Göring´s plans and policies after July 1936 suggest an intention to turn the country into an informal or economic colony of Nazi Germany.

The outbreak of the Spanish Civil War brought Spain onto the agenda for both Hitler and his Italian counterpart, Mussolini. In the first instance both dictators were provided with the perfect opportunity to prove their anti-communist credentials. Separately from each other they quickly decided to intervene exclusively on behalf of General Franco despite the fact that the latter was only one amongst a number of leading Spanish officers involved in the coup attempt against the Spanish Republic. When the promises of a quick victory evaporated, Hitler and Mussolini had to reconsider their decision to support Franco and both decided in favour of stepping up intervention. By early 1937, Italy´s level of intervention - particularly in the provision of troops - greatly surpassed Germany´s support for Franco. Yet, while Mussolini appeared to have been relatively unsuccessful in using his rapidly growing support for Franco to achieve major concessions, the Nazi regime quickly sought to exploit Franco´s increasing dependence on German supplies. In this context, this study has drawn particular attention to the role of Hermann Göring.

In fact, once Göring had overcome his initial, and very brief, reluctance to agree to Hitler´s decision to intervene in Spain, and realized the potential for exploitation Nationalist Spain´s obvious dependence offered, he stepped in to direct further developments. Hitler seemed to have been perfectly content to leave economic matters regarding Spain in Göring´s welcoming hands. Between the outbreak of the Spanish Civil War and the beginning of World War II Göring used everything in his power to force Nationalist Spain into becoming an `adjunct´ to his Four-Year-Plan office. Every single step taken -

the foundation of HISMA/ROWAK in 1936 and SOFINDUS in 1938, the establishment of an economic and financial relationship with Franco Spain controlled by HISMA/ROWAK, the MONTANA project - was supervised by Göring. Franco Spain became a playground for his economic ambitions, tolerated by Hitler and supported by his deputy, Rudolf Hess. Indeed, Hess proved only too willing to help Göring to eliminate other interest groups from interfering in his personal `fiefdom´. Göring´s steps towards an economic colonisation of Spain became a truly National Socialist project from which he managed to eliminate the interference of potential critics. In early 1937, for example, Hjalmar Schacht was forced to acquiesce and to accept the HISMA/ROWAK system despite his outspoken opposition to the organization and his demand for a normalization of the economic relationship between Germany and Spain. Criticism from officials in the German Foreign Ministry also failed to alter Göring´s plans. Even the Nationalist Spanish authorities, including Franco himself, who had tried to normalize trading relations with Germany in 1937, as well as to stop the MONTANA project in 1937 and throughout 1938, had to give in on both occasions. As long as Nationalist forces depended on German war *matériel*, they had to accept Göring´s demands, though Franco and his ministers and officials managed to delay the MONTANA project until late 1938. This was indeed the key element of Göring´s economic strategy. In order to secure Germany a permanent foothold in the Spanish economy, her investment had to be increased to acquire vital industries. Thus, Göring ordered the purchase of mines and other Spanish properties in early 1937. By the end of 1938, this - the so-called MONTANA project - led to the establishment of six mining companies in Nationalist Spain and Spanish Morocco.

Temporarily, Göring was successful. During the civil war, HISMA/ROWAK managed to alter the trading pattern between Germany and

Spain so that there was an increase in raw material imports into Germany and a reduction of agricultural products. Moreover, this policy also affected Germany´s economic competitors, Britain and France. This would be of elementary importance if Nationalist Spain was to become a `true´ economic colony of Germany. Clearly, the influence of other foreign investors had to be reduced, eliminated or, ideally, taken over by German investors. In addition, the Spanish economy had to be shaped in such a way as to allow the consumption of more German products. In a sense, Franco´s acquisition of German war *matériel* was regarded as an outstanding example of this process, even though he accumulated massive debts in order to undertake such purchases.

Yet, certain developments gave less cause for enthusiasm. Every single element of Göring´s strategy was based on the temporary and exceptional conditions produced by the Spanish Civil War. In fact, already during the civil war some of these factors developed in a way which was far less promising than had been initially assumed by the Nazi regime. Already by the end of 1937 it had become obvious that Britain´s economic influence in Spain could not be eliminated. After a year of doubts and worries about the future of imports of Spanish iron ore and pyrites, the British government expressed satisfaction about the level of vital raw materials imported from Nationalist Spain. Against France National Socialist policies seemed to have been more successful, yet even in this case success was only temporary. Once the civil war had ended in victory for Franco, the economic relationship with Spain´s northern neighbour was rekindled and Spanish raw materials started to cross the Pyrenees again. As far as MONTANA was concerned, most of the mines acquired demanded major resources for their development. Indeed, German mining experts predicted that many would not be viable until 1945 at the earliest. Nonetheless, by the end of the civil war in March 1939, Göring was

optimistic that Germany had created an economic basis for herself in Spain which could be expanded even further. Moreover, he was convinced that, though Franco was not dependent any more on German supplies of war *matériel*, the Nazi regime would still be able to influence events in Spain owing to Franco´s financial and moral indebtedness to Germany.

The outbreak of European war in September 1939, however, effectively put a halt to the master plan of a German mining empire in Spain. German government resources, already scarce before September 1939, were even further reduced by the demands of Germany´s war effort. This meant that, while some German-owned mines did produce raw materials for export to Germany, the development of a majority of mines was postponed until later - and was then never undertaken at all. Resources also proved to be a major restriction in other respects. Ambitious plans for the rebuilding of the Spanish economy to suit German needs, that is as a source of cheap raw materials and as a market for German manufactured products, had to be shelved owing to a lack of funds. The only major exception proved to be war *matériel*, whose export to Spain during World War II will be discussed below.

What became of Göring´s interest in Spain once his plans started to disintegrate? Undoubtedly, 1939 saw a major decline in Göring´s active interest in Spain. In May Göring attempted to meet Franco, most probably expecting the Spanish dictator´s gratitude. What he actually got was a thinly veiled rejection. This proved to be a warning sign for Göring that not everything was going according to plan. Yet, at this point, he was still involved enough to defend his loyal representative in Spain, Johannes Bernhardt, against Ribbentrop´s attempts to get rid of him. Göring also intervened decisively in the discussion on a possible reduction of Spain´s debt. He argued that after Franco´s victory the Spanish debt remained as a major

weapon for the pursuit of German plans in Spain. Yet, again Franco managed to blunt the weapon. Negotiations on the debt question were to drag on throughout the Second World War with only a brief respite for Germany in late 1943 when it received RM 100 million in goods.

By late 1939, Göring seemed to have lost all interest in Spain. While HISMA/ROWAK/SOFINDUS retained its dominant role over Nazi Germany´s economic relationship with Spain, there is little evidence of a continuation of Göring´s leading role. It can be assumed that Göring had abandoned hope for a successful economic colonisation of Spain. There is certainly no evidence to indicate that he was involved in any major decisions on Spain during the Second World War. In fact, when it came to such decisions, even in the economic field, the ultimate authority had been `reclaimed´ by Hitler. The National Socialist decision-making process on the two major trading items during World War II, German war *matériel* and Spanish wolfram, serves to underline this conclusion.

Throughout the largely fruitless period in the economic relationship between Germany and Spain, which lasted from the outbreak of war in September 1939 to the defeat of France in June 1940, decisions were left to those German officials with a vested interest in Spain and her economy. These included mainly the directors of ROWAK/SOFINDUS[785], particularly Bernhardt and Friedrich Bethke, and the German embassy in Spain. There is also some evidence that the German navy high command showed some interest in economic matters concerning Spain, particularly in the re-export of oil imported by Spanish refineries. Yet, even elaborate blockade-running

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[785]HISMA was in the process of being liquidated (see Chapter III).

activities, which also involved Italy, could not prevent a severe reduction in the economic relationship with Spain.

Spain´s economic usefulness was still undisputed. Indeed, plans for the future exploitation of Spanish resources only temporarily disappeared into the files of the German government. Once France was defeated and a land link to Spain reestablished, it was hoped, that these plans could be reactivated. Yet, the first issue that arose after German troops had reached the Pyrenees in June 1940 involved more than simply discussions about the economic relationship between the two countries. Throughout the second half of 1940 and during 1941 most of the negotiations between German and Spanish officials focussed on the question of a possible Spanish entry into the war. Economic aspects were at the forefront of these negotiations. While economic demands were only vaguely mentioned in the first Spanish offer of an entry into the war on 19 June 1940, they - and Franco´s territorial demands - increasingly dominated the content of Spanish correspondence with the Nazi regime.

Undoubtedly, Spain was in need of a multitude of goods if she wanted to contribute to the military efforts of the Axis. Due to the results of the Spanish Civil War, the Franco regime was in urgent need of agricultural products to prevent wide-spread starvation. Germany was not able to fulfil even the most minimal requests. Spain needed oil to run her economy and to supply her army. Again, the Franco regime drew a blank when it came to German deliveries. In fact, this list could be continued much further, including particularly cotton and fertilizers. War *matériel*, mainly artillery guns and planes, was the only item on the Spanish list where Hitler was prepared, albeit reluctantly, to accommodate most Spanish requirements. The astounding increase in economic demands after June 1940 raises the

question whether Franco - aware of Germany´s own supply problems - deliberately esaggerated them to keep Spain out of the war.

This continues to be an unresolved issue as long as access to Franco´s personal documents remains limited. The stubborn defence Britain put up against German air attacks in the summer and autumn of 1940, and the eventual postponement of Operation Sealion certainly created some doubts in Franco´s mind. These doubts were increased by the fact that he became increasingly reliant on Britain for the imports Spain needed. While negotiations with Germany yielded only pitiful results, Franco benefited from a British policy of economic appeasement which included the provision of wheat and the organization of American oil and cotton supplies. Franco was still impressed by Germany´s war machine and continued to believe in an eventual National Socialist victory. For the time being, however, he decided to remain in the background and wait for a decisive military development.

Suddenly, in the summer of 1941 and after further impressive German victories in Southeast Europe, this moment seemed to have arrived. Finally, Hitler had finally decided to attack the arch-enemy he shared with Franco: the Soviet Union. Just as Franco had hoped, the Hitler-Stalin Pact of August 1939, which had been a shocking experience to him, had turned out to be a temporary tactical move by Hitler. In the initial euphoria, Franco even agreed to send troops to the Eastern Front in the form of the "voluntary" Blue Division. As with Britain in June 1940, Franco was convinced that Germany would defeat the Soviet Union in a matter of weeks, a belief he obviously shared with Hitler. Yet again, the situation took a different turn and Germany remained locked in combat with the Soviet Union until her capitulation in May 1945.

The failure of Hitler´s eastern campaign had a direct impact on Germany´s economic relations with Spain. *In toto*, Spanish exports constituted a minor element in Germany´s total balance sheet of imports, averaging at two per cent between 1941 and 1944, Yet, a limited number of Spanish products achieved vital importance for Germany´s war effort. First and foremost, the Iberian Peninsula became the primary source of wolfram, a non-ferrous metal crucial to German armaments manufacturers. In addition, the onset of winter at the Eastern Front dramatically increased the needs of the German army for winter clothes. Spanish wool, hides and skins experienced a major increase in demand. The realization of such German requirements sparked off a fierce Allied economic warfare campaign to deny Germany access to these products.

In value terms wolfram came to dominate Spain´s trade with Germany as well as the Allies from late 1941 onwards. In hindsight, the struggle for wolfram serves as an excellent indicator of Franco´s basic creed. Ideologically, the Spanish dictator was undoubtedly closer to the Axis than to Britain and the United States, whose democratic political systems he detested. Yet, first and foremost he was committed to Spain. If competitive wolfram purchases by both sides helped Spain´s economy and boosted the revenue of the Spanish state, then Franco was only to happy to encourage it. In late 1943, this attitude became only too clear when Franco provided the Nazi regime with the necessary financial help to continue wolfram acquisitions while, at the same time, ridding himself of some of Spain´s civil war debt. The May 1944 Wolfram Agreement with the Allies underlines such a line of argument. Franco fought against a total wolfram embargo because he regarded it as a damaging restriction on Spain´s trade, not because he felt that he owed a debt to the Nazi regime. Even the subsequent Francoist encouragement of German smuggling of wolfram is more indicative of the

economic importance of continued wolfram trading to Spain than of any great commitment to the Nazi regime.

Nevertheless, one should not discount completely the possibility that some gratitude for Germany´s intervention in the civil war and some ideological affinities did influence the decisions of Franco and his officials. Only a mixture of ideological sympathy and generous German bribes help to explain why, for example, many Falangists, police officers and custom officials closed their eyes in the face of, or even supported, ROWAK/SOFINDUS´ illegal activities, such as smuggling and later the supply operations to the German fortresses on the French Atlantic coast. Although ROWAK/SOFINDUS´ attempts to build a National Socialist mining empire in Spain were not blessed with success, at least the contacts with Spanish officials established in the course of such attempts paid some dividends.

In conclusion, it has to be emphasized that the period after Germany´s invasion of the Soviet Union developed into an uphill struggle in her economic relationship with Franco Spain. Plans of an `economic colonization´ of Spain, which had been put on ice after the outbreak of war in September 1939, were still considered, but little progress was made and major steps would have had to wait until after the war had been won. In fact, the development of the war tipped the balance in the economic relationship in favour of the Franco administration. The German war economy and the German army found themselves increasingly dependent on certain Spanish exports. Due to rapidly increasing prices for such products - wolfram being the prime example - Nazi Germany slipped into a growing trade deficit with Spain. Owing to Franco´s reluctance to pay off his civil war debt, the Nazi regime was not even able to use this `weapon´ in the way Göring had hoped for in 1939.

While Hitler had found it almost impossible to fulfil any of Franco´s economic demands for a Spanish entry into the war in 1940/41, the situation did not improve thereafter. In the end, that is from 1942/43 onwards, Hitler was forced to release considerable amounts of war *matériel* to soften the trade and clearing imbalance. Franco and his fellow generals were undoubtedly keen to acquire the one `product´ the Allies would not supply them with. Initially, Hitler clearly hoped that Spanish forces would use his supplies, particularly after Operation Torch had created the possibility of Allied moves against Spain. By the end of 1943, however, German war *matériel* had become simply a bargaining tool in the economic negotiations with Spain with no military commitment attached. The German war economy was desperate for wolfram to produce certain types of war *matériel* and war *matériel* was exported to pay for it.

Instead of becoming more dependent on Nazi Germany - let alone an economic colony - the war had helped Franco to assert his independent position. A reversal of fortunes had taken place. While Franco had been desperately dependent on Germany´s support during the Spanish Civil War, from 1942 onwards the Nazi regime found itself increasingly under pressure to comply with Spain´s economic demands. It is not surprising that, corresponding to Franco´s growing quest for independence, Hitler´s anger about Franco grew to a point at which he regretted his decision of July 1936 to intervene in Spain.[786] Although Hitler´s comments did not directly refer to the economic relationship with Spain, its development certainly did not help to improve Hitler´s mood. Already during World War II, but even more so in hindsight, it became clear that the nearly 580 million Reichsmarks the National Socialist regime had expended to support Franco in the Spanish Civil War had not yielded long-term economic benefits. Although the abnormal

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[786]For Hitler´s criticism of Franco after 1939 see R. Zitelmann, *Hitler*, pp.450ff.

conditions created by World War II did have an impact on this failure, it is doubtful whether Franco would have allowed an economic colonization of Spain even under peace-time conditions. As early as 1937 he had requested a normalization of Nationalist Spain´s economic relationship with Germany, but he had to yield to German pressure. After the civil war, however, the situation improved gradually in Franco´s favour. In the end, only a total German victory in Europe would have brought National Socialist plans for an economic colonization of Spain back on course. After the war, the Allies punished Franco Spain for her support of Nazi Germany during the previous years, particularly for the export of wolfram. However, the realization of Hermann Göring´s plans of 1939 would have been a far more painful experience for Spain than the few years of international isolation she actually suffered after 1945.

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